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Credit Union Development in Louisiana.

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CREDIT UNION DEVELOPMENT IN LOUISIANA

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ABSTRACT

Credit unions are cooperative financial institutions designed to accumulate the savings of members and lend to members at reasonable rates of interest for provident and productive purposes. This dissertation traces the historical development of credit unions in the United States and Louisiana through 1962, examines the economic role and nature of the credit union, enumerates the weaknesses in the structure of the credit union system, and suggests modifications which would strengthen the credit union framework and enhance its value to members and to society.

As a mutual association, the credit union serves as an intermediary between savers and borrowers within a membership group composed of persons having some common bond of association other than credit union membership. The role of the credit union is to overcome the inferiority of the individual household in finding an attractive outlet for its savings and a source of borrowed funds in the financial markets, and to overcome the risk and inconvenience of direct lending by savers to borrowers.

The credit union has all of the problems of maintaining solvency and liquidity associated with other financial intermediaries, compounded by the close association of members who are all likely to experience the same economic fortunes at the same time. The problems of matching the flow of savings with the demand for loans while maintaining the liquidity and solvency of members' savings could be lessened by the establishment

of both a discount facility for credit union assets and an adequate share insurance program on a national basis.

Other areas examined include the tax-exempt status of credit unions and the equity of present procedures of establishing equity reserve accounts. The dissertation contains much statistical data which is of importance from both the historical and analytical standpoints. Several areas are suggested for further study including the possible use of the credit union as a device for increasing the degree of competition in small and rural communities, the sources of funds to credit unions other than members' savings, the uses of funds other than loans to members, and the uses made of funds borrowed from credit unions. Better records on scaledowns of share accounts and liquidations need to be maintained and made available to researchers, and the general quality of reporting the results of operations needs to be improved.

INTRODUCTION

On December 31, 1962, almost 200,000 people held membership in 413 Louisiana credit unions. These institutions, which began their development 38 years earlier with the issue of the first charter in December, 1924, had, by year's end, 1962, command of assets in excess of $92 million. During the fifteen years, 1947-1962, credit unions were the fastest growing of Louisiana's financial institutions operating in the personal savings and consumer installment loan markets. The purpose of this thesis is to trace the development of credit unions in Louisiana; to explain, in economic terms, the role of the credit union as a financial institution; and to project the probability and consequences of further development of credit unions in Louisiana.

Analysis of the process of development of these financial institutions is important for several reasons. First, it should give those concerned with the day-to-day operations of the institutions a perspective of what they are doing in terms of the overall economy. Second, economic analysis should give the regulatory authorities a more complete view of the role of credit unions and provide them with information necessary for future decision making. Third, a presentation of the characteristics and economic role of credit unions should give the public further understanding of the alternatives open to individuals seeking outlets for personal savings and sources of borrowed funds.

Finally, the economist should gain a further understanding of the operations of the financial system through a better understanding of one of the parts of the system. This thesis, then, seeks to fill a void[1] in the literature by providing a reference work for all those interested in the operations of credit unions in Louisiana.

I. SCOPE AND LIMITATIONS

The present study deals with the development of credit unions as a group in Louisiana. The purpose is to analyze this development from the standpoint of credit unions as financial institutions and the position of this type of institution in the financial system and economy of Louisiana. This aggregative analysis which groups together all credit unions for study yields much information as to their economic impact and significance. This thesis studies not only the absolute growth pattern of Louisiana's credit unions, but also analyzes the relative growth rates of credit unions and other financial institutions operating in the same markets and compares the relative growth and operating characteristics of various types of credit unions.

The analysis is limited to aggregates and does not deal with the operations of any specific credit unions, with managerial problems or accounting practices as such, or with the size, terms, and use of loans--although each of these areas would be worthy of investigation.

[1]The only previous attempt at a systematic analysis of Louisiana credit union activity appears in an unpublished manuscript in the files of the Louisiana Credit Union League: Horace G. Porter, "History of Credit Unions in Louisiana," unpublished (term paper) manuscript prepared at Louisiana State University, Baton Rouge, Louisiana, May 21, 1937.

This thesis is not specifically designed as a history, but it does contain historical statistical data to provide a logical framework for study of the history of Louisiana credit unions. The problems dealt with here are the problems of the credit union movement as a whole rather than of individual credit unions, although the two cannot always be divorced.

II. DEFINITION OF TERMS

Credit Union. A credit union is a cooperative financial association through which members pool their savings and from which they may borrow for provident and productive purposes. The actual pooling of savings is accomplished through the sale to members of low denomination shares of stock. While dividends are paid out of earnings on the basis of the member's investment in shares, credit unions retain the typical cooperative procedure in elections with each member limited to one vote regardless of share holdings. Loans are extended through action of a credit committee of members elected to office by the general membership. The affairs of the credit union are run entirely by its members and, with the exception of the treasurer and clerical staff, officers in the organization serve without pay.

Federal and State Credit Unions. A credit union may be chartered and regulated under either state or federal law. In Louisiana, credit unions are regulated by the State Banking Department under Act 40 of 1924 as amended or by the Bureau of Federal Credit Unions of the United States Department of Health, Education, and Welfare under Chapter 14 of Title 12 of the United States Code. While the federal and state statutes differ somewhat in detail as to specific powers and limitations of institutions under their respective jurisdiction, the laws are essentially parallel in that they have a common purpose, and the institutions resulting from the acts are similar in characteristics and function.[2]

The credit union charter issued under either state or federal law sets forth the powers and responsibilities of the association and establishes it as a corporate entity with the power to enter into contracts, sue and be sued, purchase, hold and sell property necessary to its operations, and to receive the savings of and lend to qualified members with certain limitations. A credit union may also deposit money in banks and other approved depositories and may borrow from any source an amount up to 50 per cent of its unimpaired capital and surplus, as well as carry out other transactions necessary to the operations of the business. Regulation by the chartering agency includes both the periodic filing of reports of operations and unannounced supervisory examinations.[3]

Throughout this thesis, the words "federal" and "state" will be used to designate the particular authority under which the credit unions under study are chartered and regulated.

Credit Union Type. The cooperative nature of credit unions and their special treatment under the law imposes a unique degree of

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[2]A more detailed comparison of the legal and operating characteristics of federal and state credit unions in Louisiana is contained in Chapter III.

[3]Supervisory examination would ideally occur at least once annually; however, due to a shortage of staff, the Bureau of Federal Credit Unions examines all credit unions under its jurisdiction only once every fifteen months on the average.

interdependence upon the membership with regard to funds entrusted to the institution. To afford adequate protection (and to justify special tax status), membership in a credit union is limited to persons (and associations of persons) having a common bond of association arising independently of the credit union itself. Both state and federal statutes define this common bond in such a way that it may arise among persons employed by the same business firm or governmental unit, among persons residing within a well-defined geographical area or community, and among persons holding membership in the same organization such as a church, service club, labor union, or trade association. For the purposes of this thesis, these sources of common bond are defined as: occupational, residential, and associational credit union types. Although the preponderant type is occupational, an effort is made to determine the extent of differences among credit unions of the various types.

III. THE LOUISIANA CREDIT UNION LEAGUE

In October, 1934, Mr. Tom Doig of the newly established Credit Union National Association met with representatives of Louisiana's 12 credit unions to organize the Louisiana Credit Union League. The purposes of the League were to provide an organization through which existing credit unions could: (1) assist in spreading the benefits of credit union membership to others by actively promoting organization of new credit unions; (2) assist in creating good rapport between credit unions and the regulatory agencies; (3) maintain and improve the legal status of credit unions by advancing the interests of credit unions in the legislative bodies of the state and federal governments; (4) assist credit unions in solving operating problems and improving procedures; and (5) provide cohesion among credit unions and liaison with the Credit Union National Association. In short, the purpose of the League was to assist in furthering the development of credit unions and their operations in Louisiana. Until 1941, the League was operated by volunteers and financed by annual dues of one-half of one per cent of the total assets of affiliated credit unions and by assistance from the Credit Union National Association.

In 1941, dues paid by affiliated credit unions were raised to five per cent of annual gross profits, and a managing director was employed to operate the League. By 1947, the League's budget was $6,500, and the staff consisted of the managing director and a secretary. Sixty-five of the state's 125 credit unions were affiliated with the League.

During the fiscal year ending March 31, 1963, the Louisiana Credit Union League expended $105,450 and had on its staff eleven full-time employees and part-time legal counsel. Five field service district representatives were responsible for working with credit unions directly. Duties of the field-men included organizing new groups, giving advice on operating procedures, arranging inter-credit union loans, personnel placement, assisting with liquidations and in general serving as liaison between the League and member or potential member credit unions. The remaining members of the staff were responsible for public relations, liaison with regulatory agencies, liaison with the Credit Union National Association, legal assistance, insurance, counseling, preparation of reserach studies and reports, personnel supervision, and in general carrying out the active business of the League on a state-wide basis.

Numerous individuals have contributed to the development of the Louisiana Credit Union League and through it to the development of credit unions in Louisiana and the Nation. While it is not the purpose of this thesis to trace the activities of those connected with the credit union movement in Louisiana, it is felt that the development of credit unions cannot be explained by economic factors alone because of a unique characteristic of credit union management. Unlike other financial and non-financial enterprises, the basic decisions of policy and operations in a credit union are made by persons whose main activities are in non-credit union positions.

The fact that credit unions are operated by and for the benefit of those within the membership group distinguishes the credit union from the enterprise which is founded by a profit-seeking entrepreneur who sees the demand for a service or commodity and moves to fulfill this demand.[4] The profit motive is not absent from the credit union, however. Indeed, without the profit motive the credit union could attract neither savers nor borrowers. It does mean, however, that groups which would desire the services of a credit union might not organize one without the stimulus of an outside organizer who could explain the benefits and operations of a credit union, the procedure

[4]The stimulus for the cooperative development is explored further in Chapter II and the effects of the limited field of membership upon the operations and potential for growth are discussed in Chapter IV.

for organizing, and could assist in getting it underway. As mentioned above, a large part of the function of the Louisiana Credit Union League has been in the areas of education, organization, and assistance to new credit unions.[5]

The development of credit unions in Louisiana has been stimulated by a number of individuals who have worked to spread the benefits of credit union membership. Initial stimulus to the development of credit unions in Louisiana was provided by Roy R. Bergengren of the Credit Union National Extension Bureau.[6] He visited the state in 1924, assisting in preparation of legislation which became Act 40 of 1924. This legislation provided for the chartering of credit unions and their regulation under the State Banking Department. Later, Bergengren, Thomas W. Doig, and Claude R. Orchard of the Credit Union National Extension Bureau provided the stimulus for organization of the Louisiana League.

The Louisiana credit union development was soon augmented by its own leadership as personified by the organizers of the League: I. C. Kernaghan, C. J. O'Dowd, C. R. Duvernay, H. C. Ellis, Florence E. Dixon, and Harold Moses. O'Dowd, Ellis, and Kernaghan were the first three presidents of the League, guiding it through the early formative

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[5]Perhaps these functions, especially those of education and organization, were much more important in the early stages of credit union development than they are today, since most groups now probably have within their membership individuals who are familiar with the credit union idea, if not actually experienced with the operations of a credit union.

[6]The Credit Union National Extension Bureau (financed by Edward A. Filene) was replaced by the Credit Union National Association (financed and operated by member credit unions) in August, 1934.

years. One man stands out among all those who devoted time and effort to the development of Louisiana's credit unions. This man was Harold Moses who entered the credit union business in June, 1934, as president of the newly formed Farm Credit Administration Credit Union. Moses was one of the founders of the Louisiana Credit Union League and in 1935 became a member of the Board of Directors and a National Director of the Credit Union National Association, positions which he held until his death in July 12, 1959. Additionally, Moses served as president of the League from 1938 to 1953 and in various capacities with League Central Credit Union, Credit Union National Association and CUNA Mutual Insurance Society during his 25 years of credit union activity.

Another individual who has distinguished himself in terms of service to Louisiana credit unions since he helped organize the D. H. Holmes Federal Credit Union in September, 1934, is Henry J. Aime. Elected to the Board of Directors of the Louisiana Credit Union League in 1942, Aime has served in that capacity, as alternate national director and as president of the League since 1953. Aime has served since 1934 as treasurer-manager of his own credit union.

On November 7, 1947, Edgar L. Fontaine became the managing director of the Louisiana Credit Union League and continued the job of unifying the state's credit union leadership under the organization which had been started largely as a paper organization with few resources in 1934. Under Fontaine's leadership, the League took on the characteristics of a professionally managed trade association with the purpose of spreading the activities of the industry and fostering and protecting its members.

In the last analysis, however, while these leaders and others like them have provided leadership and guidance to Louisiana's credit union development by contribution of time and ability, this is only a part of the explanation for credit union growth. The success of each credit union depends on the ability of the membership group to develop the kind of leadership and managerial skills necessary to attract individuals as savers and borrowers. Additionally, credit unions need a favorable legal, economic, and financial framework in which to operate if they are to develop and grow. This thesis is an economic and statistical analysis of this framework within which credit unions have developed in Louisiana from their inception in 1924 to December 31, 1962.

IV. ORDER OF PRESENTATION

Chapter I traces the development of credit unions in the United States and places them in perspective among other financial institutions operating in the consumer finance and personal savings markets. The growth and development of Louisiana's credit unions is traced in Chapter II. After tracing the pattern of development of state and federal credit unions in Louisiana, Chapter II shows the geographic concentration of credit union activity, compares credit union development with that of other savings and lending institutions in Louisiana and compares Louisiana credit union development with that in the Nation.

Chapter III presents a discussion of the legal framework of credit unions (including a comparison of the provisions of the state and federal statutes) and a further analysis of the operating characteristics of Louisiana credit unions as to their size, membership, dividend rates, and loan to share ratios as of December 13, 1962. Extensive use is made of frequency distributions in comparing state and federal credit union characteristics and in comparing occupational, residential, and associational credit unions.

Beginning with a discussion of the role of finance and financial intermediation, Chapter IV examines the economic nature and role of the credit union, presents some of the problems inherent in the credit union as presently organized, examines their tax-exempt status, and attempts to project both the desirability of future growth of the credit union as a financial intermediary in Louisiana and the probability of continued growth in view of problems which face the movement. Chapter V consists of a brief summary and presentation of findings and conclusions, and Appendix A contains extensive statistical data relevant to the thesis.

V. DATA SOURCES AND METHOD OF ANALYSIS

This writer received the complete cooperation of the Bureau of Federal Credit Unions, Louisiana State Banking Department, Louisiana Credit Union League, and Credit Union National Association in securing historical statistics on credit union operations, statistical data on 1962 operations of all 413 Louisiana credit unions, and other relevant information necessary for the analysis contained herein. Extensive use of time series and frequency distributions is made throughout the thesis in an attempt to present as complete an analysis as possible within the framework of aggregate analysis.

Every attempt was made to secure written documentation of facts and issues presented herein. Inasmuch as little has been written concerning Louisiana's credit unions, however, most of the presentation in Chapters I, II, and III rests upon the statistical data and personal interviews with leaders in the credit union movement and personnel of the state and federal regulatory agencies. The analytical presentations of Chapter IV are based on the general body of knowledge contained in the broad fields of economics and finance and upon the specific sources cited in Chapter IV.

CHAPTER I

CREDIT UNIONS IN THE UNITED STATES

The origin of social and economic institutions is often difficult to trace. This is true of the credit union as a financial institution. However, within the organized credit union movement the first credit union in North America is considered to be La Caisse Populaire de Levis, organized in Quebec, Canada, on December 6, 1900, by Alphonse Desjardins.[1] La Caisse Populaire Ste. Marie of Manchester, New Hampshire, chartered by a special act of the New Hampshire Legislature in 1909, is considered to be the first credit union in the United States and was also founded by Desjardins.[2] The credit union movement spread rapidly throughout the United States and by December 31, 1962, almost 14 million people held membership in 21,050 state and federally chartered credit unions.

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[1]The very interesting story of this dynamic man who was the founder of the Credit Union Movement in North America and of his cooperative people's banks is spread throughout the credit union literature. Examples are: Alphonse Desjardins, The Cooperative People's Bank (New York: The Russell Sage Foundation, 1914); Roy F. Bergengren, Cooperative Banking (New York: The Macmillan Company, 1923), pp. 50-81 and 110-117; Roy F. Bergengren, Credit Union North America (New York: Southern Publishers, Inc., 1940), pp. 78-91; George Boyle, The Poor Man's Prayer (New York: Harper and Brothers, 1951); Richard Y. Giles, Credit for the Millions (New York: Harper and Brothers, 1951), pp. 86-93.

[2]That Desjardins' work was not entirely unique is suggested by evidence that both of his "firsts" were preceded by the employees of the Boston Globe who founded a cooperative credit society, the Globe Savings and Loan Association, in 1892. For an account of this society and other early efforts see: Erdis W. Smith, "Federal Credit Unions: Origin and Development," Social Security Bulletin, U.S. Department of Health, Education and Welfare (November, 1955), pp. 3-9 and 27.

Personal savings which had accumulated in credit union share accounts totaled almost \$6.2 billion and loans outstanding to members were almost \$5.5 billion. The rate of growth of the credit union as a savings medium and source of credit, whether measured in absolute or relative terms, was rapid with the exception of war and depression years. It is the purpose of this chapter to trace the growth of credit unions in the United States from their inception in 1909 to the end of 1962.

I. CREDIT UNION LEGISLATION[3]

The charter of La Caisse Populaire Ste. Marie was granted by a special act of the New Hampshire Legislature. At this time there were no laws in any of the states enabling charters to be granted to persons desiring to organize credit unions. The first such law, passed by the Massachusetts Legislature in 1909, subsequently became the model for credit union legislation in the states and ultimately for federal legislation.

By year's end 1921, eleven states had credit union laws on their books and 72,310 people held membership in the nation's 190 active credit unions.[4] The effort to secure enabling legislation in all states was pushed throughout the 1920's and early 1930's with the result that 39 states had passed credit union legislation by the end of 1933. There were 2,016 active credit unions with 301,119 members by this time.

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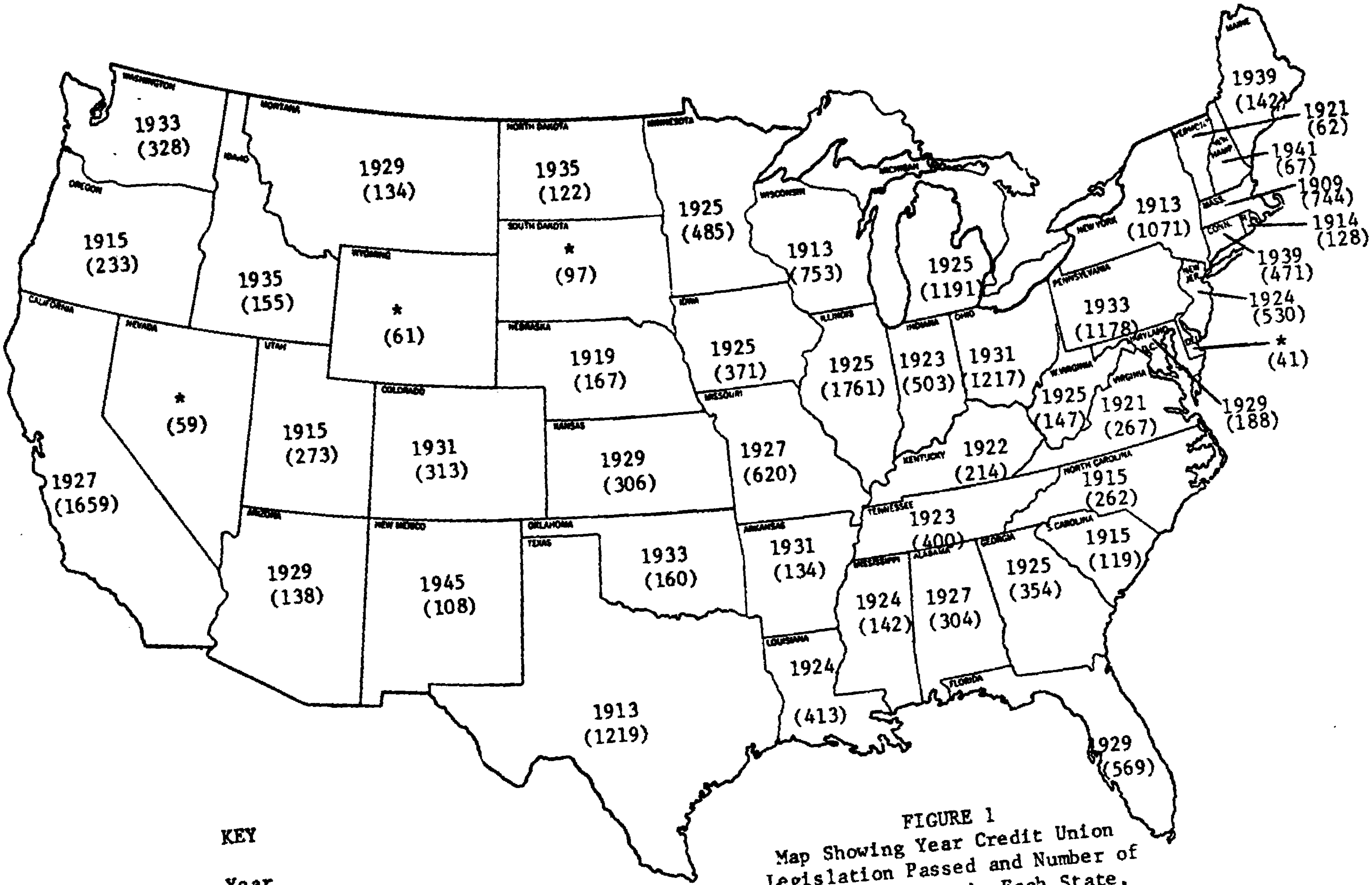
[3] A thorough discussion of the effort to secure enabling legislation for credit unions throughout the nation is found in: Roy R. Bergengren, Crusade (New York: Exposition Press, 1952).

[4] Some early attempts at credit union legislation resulted in unworkable laws, *e.g.*, the Utah experience related in Bergengren, Cooperative Banking, pp. 9-10 and 88-89.

In 1934, no additional states passed credit union legislation, but an act was passed in the Congress providing for nationally chartered credit unions in the states and territories of the United States. The development of credit unions received impetus from the federal law because of the increased geographic area of operations and because of promotional and educational activities carried out under the new law. The years in which state credit union laws were passed and the total number of credit unions in operation on December 31, 1962, in each state are shown in Figure 1.

II. THE DEVELOPMENT OF CREDIT UNIONS IN THE UNITED STATES

The early years of the credit union movement saw the credit union as a financial institution growing to fill a void in the field of finance. This void consisted of the entire field of consumer lending. Prior to the development of the credit union, there was no institution of finance generally recognized as existing for the purpose of accumulating the small savings of the lower income groups and using funds so accumulated to extend loans to these same groups for emergency needs and consumer durable goods purchase. Commercial banks, not yet recognizing the profit potential of consumer loans, largely limited their lending activities to the credit needs of agriculture, commerce, and industry. Savings and loan associations and savings banks accumulated savings but channeled their loans to areas other than consumer finance. Such loans as were available to consumers were obtainable usually at exorbitant rates and on somewhat risky terms from loan sharks, retail business establishments or pawn shops. The establishment of Provident Loan



KEY

Year
(Number of
Credit Unions)

* No State Law

FIGURE 1
Map Showing Year Credit Union Legislation Passed and Number of Credit Unions in Each State, December 31, 1962.

Source: Table XXII, Appendix A.

Societies alleviated the problem where they were able to operate, but it soon became apparent that the Provident Loan Societies with their limited resources could only scratch the surface of the vast demand for consumer credit among the middle and lower income groups.

It was this need for an institution based on thrift and consumer lending among the working class which led Desjardins to begin organizing credit unions patterned after similar societies developed by Friedrich Raiffeisen and Herman Schulze-Delitzsch in Europe.

Statistical information about credit unions in their first two decades is extremely sketchy. Such information as was collected was reported on a voluntary basis by the individual credit unions and is almost useless insofar as a study of development is concerned. However, it is safe to say that in terms of number, credit unions were relatively unimportant to the American economy during the first twenty years of their existence. By 1929, there were still less than a thousand credit unions operating in the United States and their membership numbered little more than a quarter-million persons.

From this base, however, we are able to trace the development of credit unions as they were woven into the fabric of the American economy to attain their present status as a financial institution with over twenty-one thousand active unions and almost fourteen million members.

Chart 1 traces the growth of credit union operations in the United States in terms of total assets, paid-in share capital, and loans outstanding to members. To provide a picture of the relative growth rates of the series, a semi-logarithmic scale which allots equal vertical distance to equal percentage change is used in Chart 1. While a detailed

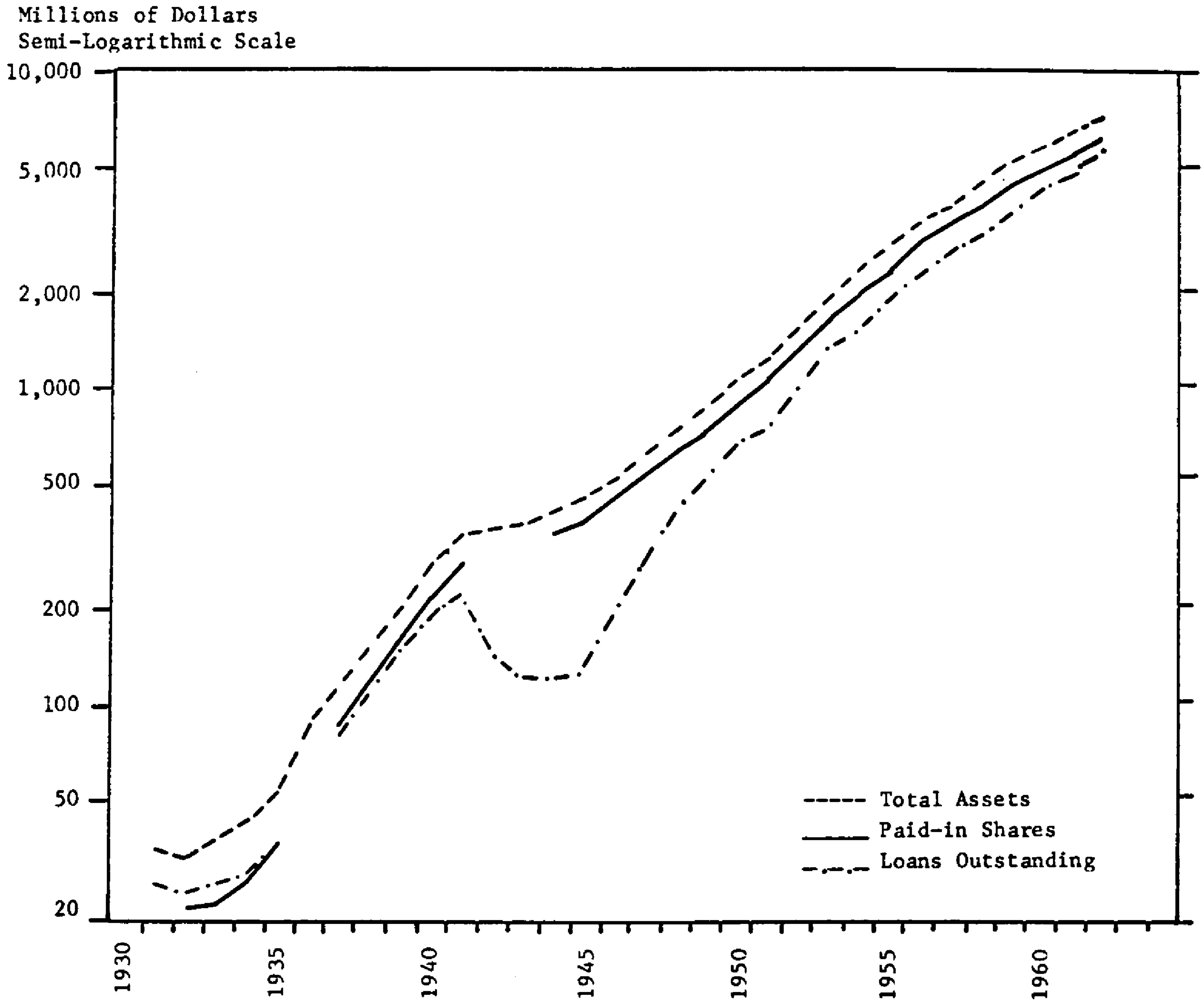


CHART 1. Total Assets, Paid-in Share Capital, and Loans Outstanding of All Credit Unions in the United States, December 31, 1931-1962.
Source: Table XXIII, Appendix A.

analysis of the reasons for the rapid development and high growth rate of credit unions will be reserved for a later chapter, it is interesting to note some of the conclusions which can be drawn from the financial operations of United States credit unions presented in Chart 1.

First, during the years, 1931-1934, credit union share capital was not sufficient to cover outstanding loans, indicating that credit unions obtained loan funds at this time either by selling securities and running down bank balances or by borrowing from outside sources. Second, a period of rapid growth followed passage of the Federal Credit Union Act in 1934.

Third, the war years, 1942-1945, saw the loan portfolios of credit unions shrink while total assets grew only at a very modest rate. The war brought conditions of unstable working force, high labor turnover, and high mobility which are not conducive to fostering a strong credit union movement. At the same time curtailment of consumer durables production partially limited the need for credit union loans. Although data for share accounts is not available for two war years, indications are that growth here was quite retarded. The latter can be attributed to the appeal to the public to purchase U.S. War Bonds as savings instruments as well as to the high level of labor turnover.

Finally, Chart 1 shows the rapid sustained growth of all three series in the post-war period with annual growth rates in the neighborhood of 15-25 per cent. The exceptions to this growth rate are the even more rapid growth of loans outstanding in the early post-war period (1946-1950), as they underwent a "catching-up" process from wartime lows, and the slightly less impressive growth rate of 12-13 per cent which was experienced in 1960, 1961, and 1962.

Paralleling the growth in credit union financial operations is the expansion in the total number of institutions operating and membership in these institutions. The annual percentage change in the number, membership and total assets of all United States credit unions from 1932 to 1962 is shown in Chart 2. Both positive and negative quadrants are used so that a point plotted above the zero base line represents a positive rate of change (or growth) from the previous year, while a point below the base line represents a negative rate of change (or decline). Points are connected only to identify the series and to present a visual image of growth trend over several years. No information is available on the growth process within any given year.

The very impressive growth rates recorded during the 1933-1940 period can be attributed to the impetus given the credit union movement by federal legislation and attendant emphasis on organization and educational programs and to the small base upon which the industry was building. The war years saw an actual decline in the number of institutions and in membership, while total assets continued to grow at a modest rate. The sustained growth of the credit union movement in terms of number of institutions and number of members parallels that of credit union financial operations in the post-war period. However, the technique of showing percentage change rather than aggregates in Chart 2 serves to highlight the more modest rate of growth in the latter 1950's and early 1960's in contrast to the earlier post-war period. Detailed analysis of the reasons for this decline in growth rates will be reserved for a later chapter.

By the end of 1962, every state had credit unions operating within its borders. Their numbers ranged from a low of 30 in Alaska to

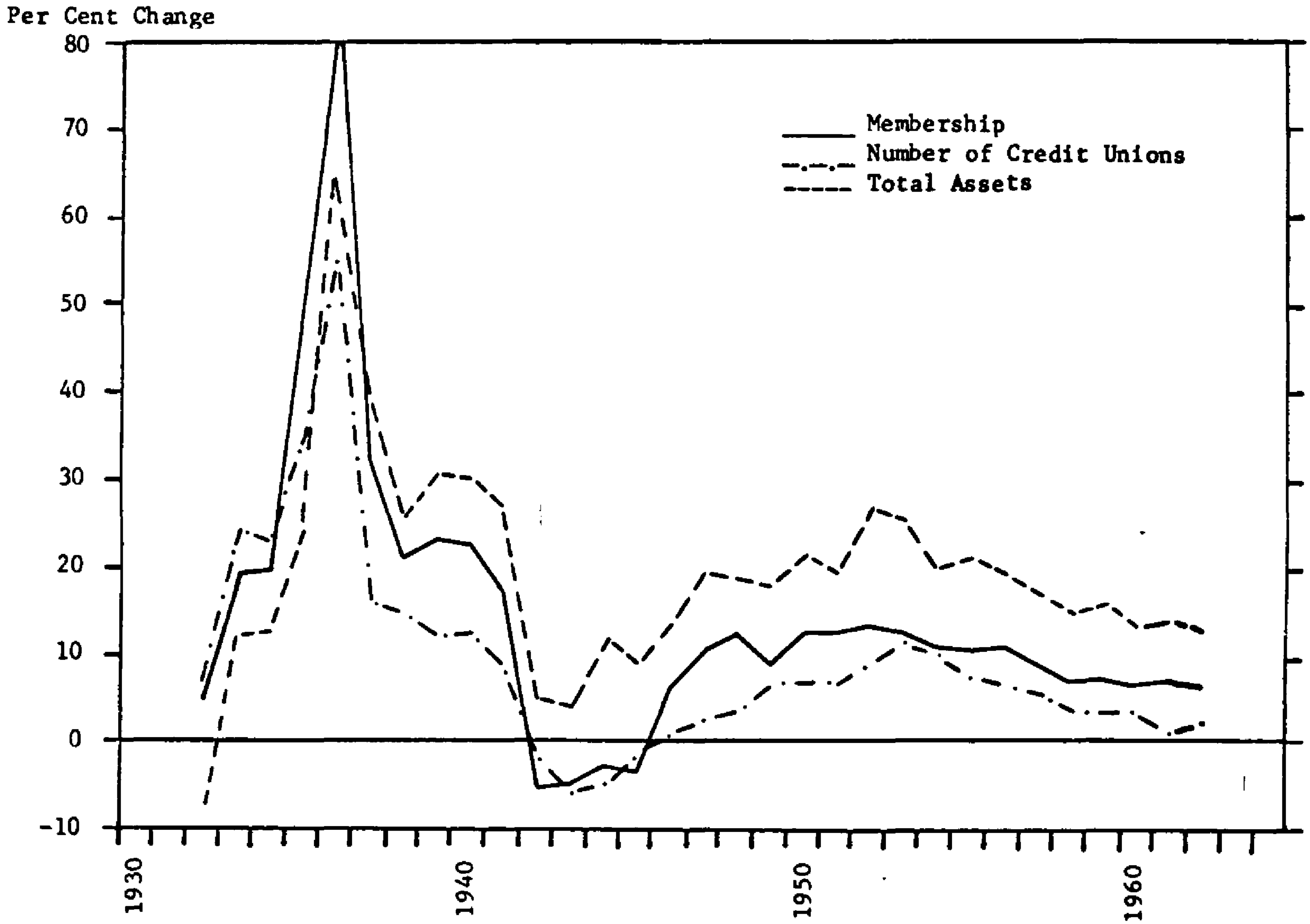


CHART 2. Annual Percentage Change in the Number, Membership, and Total Assets of Credit Unions in the United States, 1932-1962.

Source: Table XXIV, Appendix A.

1,659 in California. The distribution of unions throughout the United States is shown in Figure 1. Seven states (California, Illinois, Michigan, New York, Ohio, Pennsylvania, and Texas) had over 1,000 credit unions each and accounted for 9,296 of the nation's 21,050 unions. A better indication of the relative concentration of credit unions is the percentage of state population holding credit union membership shown in Figure 2. Membership in credit unions ranged from 2.7 per cent in Arkansas to 18.0 per cent of the population in Hawaii. The United States average was 7.1 per cent and the District of Columbia recorded 35.0 per cent of the population as credit union members.[5]

Per capita holdings of credit union assets in 1962 averaged $37.36 for the United States and ranged from $9.96 in Arkansas to $131.61 in Hawaii. In the District of Columbia the per capita average was $155.64. Variations in shading in Figure 3 are used to indicate differences in per capita holdings of credit union assets among the states. Generally, states with high proportions of their populations holding credit union membership had high per capita asset holdings, and states with low membership ratios had low per capita asset holdings.

III. CREDIT UNIONS IN THE CONSUMER INSTALLMENT LOAN AND PERSONAL SAVINGS MARKETS

Credit union growth is also reflected in their increase in relative importance in the financial markets in which they operate as thrift and lending institutions. Most credit union loans are of the

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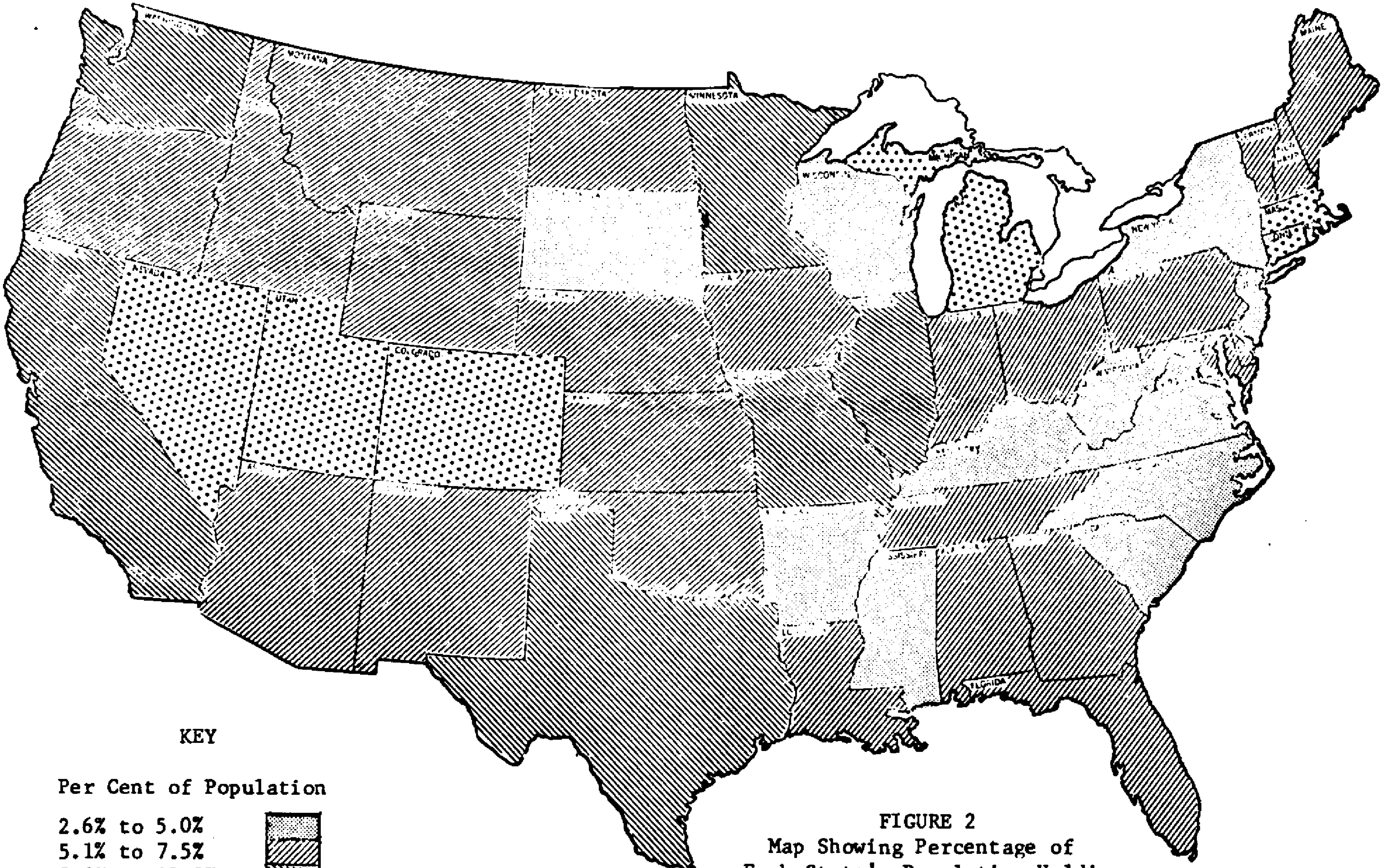
[5]Doubtless some persons holding membership in District of Columbia domiciled credit unions were residents of neighboring states for demographic purposes.



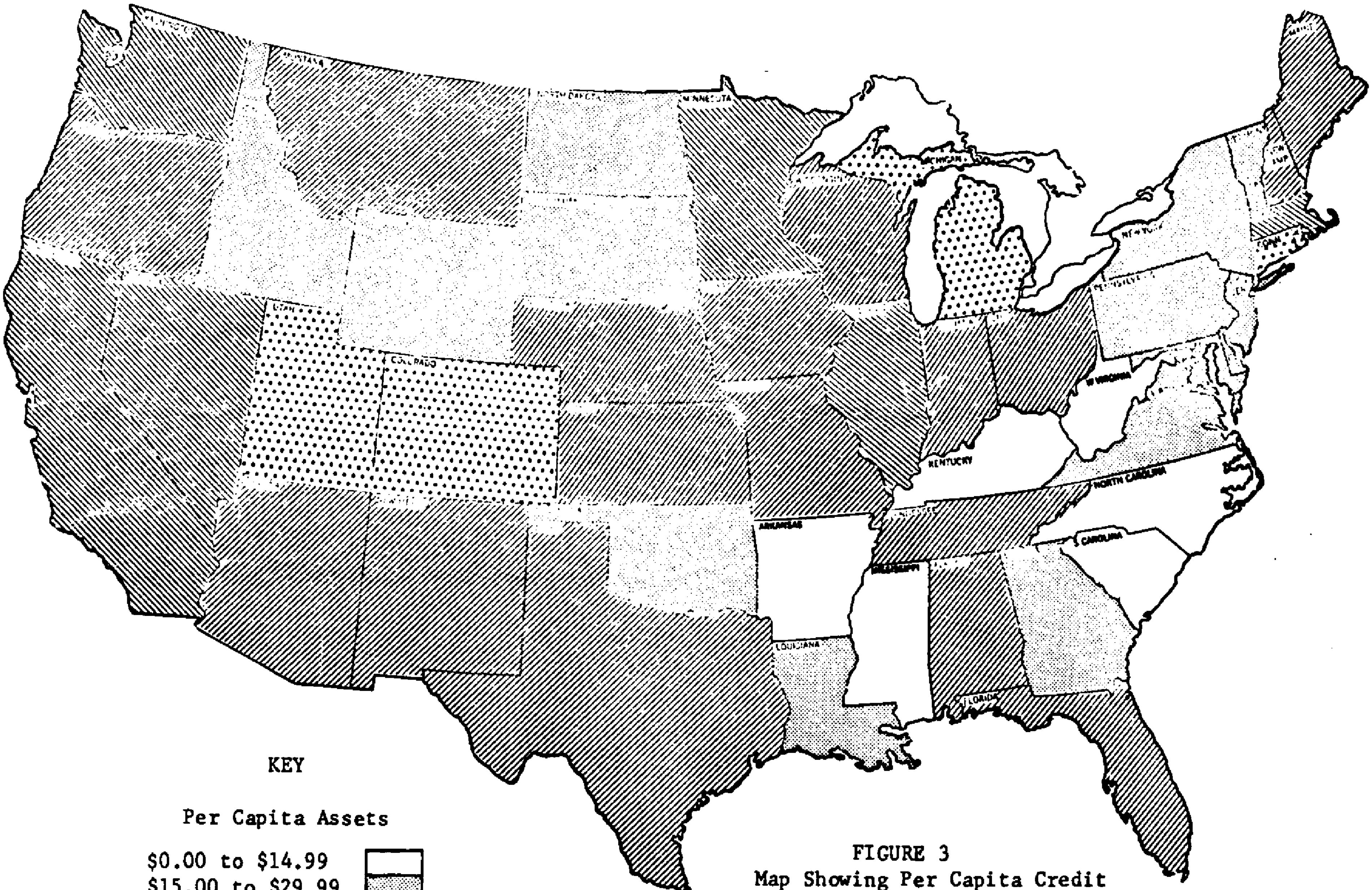
KEY

Per Cent of Population

2.6% to 5.0%
5.1% to 7.5%
7.6% to 10.0%
10.1% and over

FIGURE 2
Map Showing Percentage of
Each State's Population Holding
Credit Union Membership,
December 31, 1962.

Source: Table XXII, Appendix A.



KEY

Per Capita Assets

$0.00 to $14.99
$15.00 to $29.99
$30.00 to $44.99
$45.00 to $59.99
$60.00 and over

FIGURE 3
Map Showing Per Capita Credit Union Assets in Each State, December 31, 1962.

Source: Table XXII, Appendix A.

consumer installment variety.[6] At the end of 1939, credit unions held $132 million of consumer installment loans which amounted to only four per cent of the consumer installment loans held by financial institutions. By the end of 1962, credit unions had increased their share of the market to about $5.0 billion, or 12 per cent of the consumer installment loans held by financial institutions and 10 per cent of all consumer installment credit outstanding. Chart 3 traces the development of commercial banks, sales finance companies, consumer finance companies, credit unions, and other financial institutions in terms of their relative shares of the consumer installment credit market from 1939 to 1962.

Credit union bylaws usually state that loans will be made to members for "provident and productive purposes." Although no data is available on the uses of state credit union loans, a study[7] of federal credit union loan purposes conducted in 1961 should give some indication of the uses to which members apply their loans. If homes and home improvements are considered to be durable goods, 30.8 per cent of the number of loans made and 52.3 per cent of the total amount loaned by the 2,497 federal credit unions studied were for the purchase of durables, while the remainder were used for items ranging from investments and insurance premiums to educational expenses and tax payments. Table I shows the percentage distribution of the number and amount of loans made during 1961 and average loan size by principal purpose.

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[6]On December 31, 1962, total loans outstanding by credit unions in the United States were $5.5 billion; almost $5.0 billion or 91 per cent were consumer installment loans. See Tables XXV and XXVI in Appendix A.

[7]"Purposes for Which Loans Were Made in 1961," Report of Operations, 1961 (Washington: Bureau of Federal Credit Unions, U.S. Department of Health, Education and Welfare, 1962), XXVII, pp. 33-36.

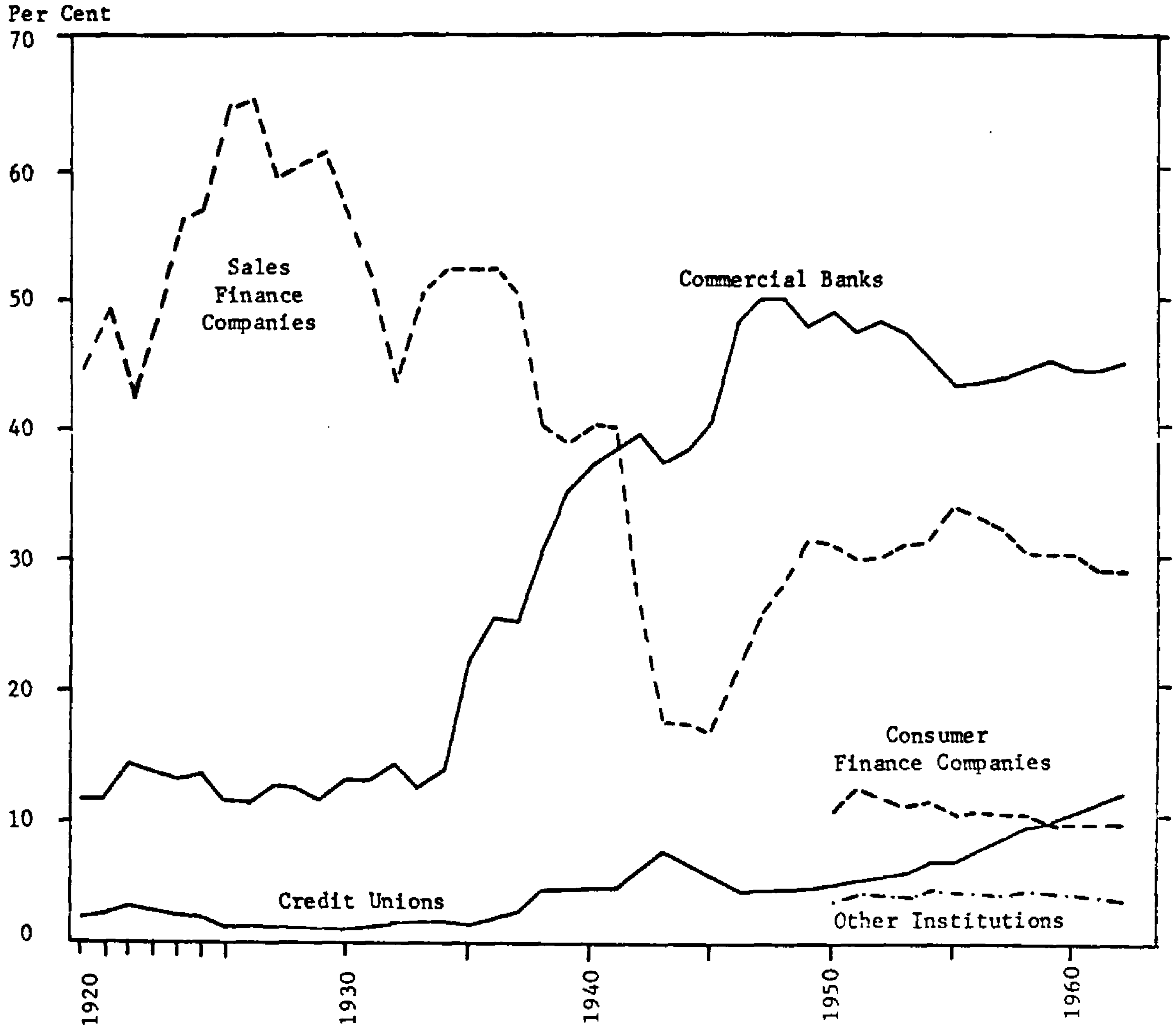

CHART 3. Percentage Shares of Various Institutions in All Installment Credit Outstanding by Selected Financial Institutions in the United States, December 31, 1919-1962.
Source: Table XXVI, Appendix A.

TABLE I

PERCENTAGE DISTRIBUTION OF NUMBER AND AMOUNT OF LOANS MADE DURING 1961, AND AVERAGE LOAN, BY PRINCIPAL PURPOSE

[Based on data for 2,497 federal credit unions reporting]

Principal Purpose of Loan	Percentage Distribution		Average Loan[1]
	Number	Amount	
Loans for--			
Agriculture:			
Capital investment (tractors, livestock, etc.)	0.4%	0.7%	$ 804
Current production (seed, feed, etc.)	0.2	0.3	617
Automobiles:			
New	4.5*	17.2	1,719
Used	8.2*	13.7	749
Repairs and other	6.2	2.7	191
Other:			
Furniture and household appliances	6.9*	5.7	368
Homes	2.0*	5.0	1,128
Home improvements and maintenance	8.0*	8.8	495
Other durable goods (boats, house trailers, etc.)	1.2*	1.9	495
Other nondurables (clothing, etc.)	2.1	0.9	180
Loans to pay--			
Current living expenses	7.7	3.2	190
Educational expenses	2.7	1.9	326
Holiday and recreation expenses (vacations, gifts, etc.)	10.0	5.1	226
Insurance premiums	3.4	1.2	164
Medical, hospital, dental, and funeral expenses	8.4	4.8	255
Taxes	3.9	2.1	240
Loans to--			
Consolidate debts	15.1	14.9	437
Make investments:			
In business ventures	0.8	2.2	1,208
In stock, bonds, etc.	0.7	1.3	868
Loans for all other purposes	7.6	6.4	376
TOTALS:	100.0%	100.0%	$ 447

[1]Based on new money only; excludes amounts to refinance old loans.
*Durables.

Source: "Purposes for Which Loans Were Made in 1961," Report of Operations, 1961 (Washington: Bureau of Federal Credit Unions, U.S. Department of Health, Education and Welfare, 1962), XXVII, pp. 33-36.

The average size of credit union loans extended during 1961 was $447 (when refinancing of old loans is excluded) and varied both with the size of the credit union and the purpose for which the loan was granted. Average loan size for the smallest credit unions (assets of under $5,000) was $123, while the largest credit unions (assets of $5,000,000 or more) had an average loan size of $557.[8] New automobile purchase loans averaged $1,719 while loans to pay insurance premiums averaged only $164. Several factors operate to keep the average size of credit union loans relatively small. Federal law limits the maximum maturity of credit union loans to five years and an individual loan may not exceed 10 per cent of the credit union's unimpaired capital and surplus. Coupled with the fact that almost 25 per cent of the federal credit unions operating in 1961 had total assets of under $25,000 and 75 per cent had assets of less than $100,000, these factors explain an important restraint to credit union average loan size. These limitations tend to explain why home loans accounted for such a small proportion of total loans extended (2.0 per cent of the number and 5.0 per cent of the amount in 1961).

Paralleling their growth in the consumer installment loan market, credit unions have also increased their share of personal savings held by financial institutions. Personal savings held in selected media in the United States from 1947 to 1962 is shown in Table II. During this period, credit unions increased their holdings of personal savings by 12 1/2 times (from $500 million in 1945 to $6.3 billion in 1961) while savings and loan associations increased their holdings by 8 times,

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[8] *Ibid.*, p. 36.

TABLE II

SAVINGS OF INDIVIDUALS IN SELECTED MEDIA
1947-1962

(Billions of Dollars)

Year	Savings & Loan Ass'ns.	Mutual Savings Banks	Comm'l. Banks	Credit Unions	U. S. Savings Bonds	Postal Savings	Total
1947	$ 9.8	$17.7	$34.7	$0.5	$46.2	$3.5	$112.4
1948	11.0	18.4	35.0	0.6	47.8	3.4	116.2
1949	12.5	19.3	35.1	0.7	49.3	3.3	120.2
1950	14.0	20.0	35.2	0.9	49.6	3.0	122.7
1951	16.1	20.9	36.6	1.1	49.1	2.8	126.6
1952	19.2	22.6	39.3	1.4	49.2	2.7	134.4
1953	22.8	24.3	42.0	1.7	49.4	2.5	142.7
1954	27.3	26.3	44.7	2.0	50.0	2.2	152.5
1955	32.2	28.1	46.3	2.4	50.2	2.0	161.2
1956	37.1	30.0	48.5	2.9	50.1	1.7	170.3
1957	41.9	31.7	53.7	3.4	48.2	1.4	180.3
1958	48.0	34.0	60.0	3.9	47.7	1.2	194.8
1959	54.6	34.9	62.9	4.4	45.8	1.0	203.6
1960	62.2	36.3	67.5	4.9	45.3	0.8	217.0
1961	70.9	38.3	74.8	5.7	46.4	0.7	236.8
1962	80.4	41.3	88.1	6.3	46.9	0.6	263.6
			PERCENTAGE DISTRIBUTION				
1947	8.7%	15.7%	30.9%	0.4%	41.2%	3.1%	100.0%
1948	9.5	15.9	30.1	0.5	41.1	3.9	100.0
1949	10.4	16.1	29.2	0.6	41.0	2.7	100.0
1950	11.4	16.1	28.7	0.7	40.4	2.5	100.0
1951	12.7	16.5	28.9	0.9	38.8	2.2	100.0
1952	14.3	16.8	29.2	1.1	36.6	2.0	100.0
1953	16.0	17.0	29.4	1.2	34.6	2.0	100.0
1954	17.9	17.2	29.3	1.3	32.8	1.5	100.0
1955	20.0	17.4	28.7	1.5	31.1	1.3	100.0
1956	21.8	17.6	28.5	1.7	29.4	1.0	100.0
1957	23.2	17.6	29.8	1.9	26.7	0.8	100.0
1958	24.6	17.5	30.8	2.0	24.5	0.6	100.0
1959	26.8	17.1	30.9	2.2	22.5	0.5	100.0
1960	28.7	16.7	31.1	2.3	20.8	0.4	100.0
1961	29.9	16.2	31.6	2.4	19.6	0.3	100.0
1962	30.5	15.7	33.4	2.4	17.8	0.2	100.0

Source: Federal Home Loan Bank Board.

commercial banks and mutual savings banks by 2 1/2 times, U.S. savings bonds held about the same, and postal savings declined to 1/6 of 1947 holdings of personal savings. Thus, credit unions were the fastest growing of these savings media in terms of personal savings held in the 1947-1962 period and increased their holdings from 0.4 per cent to 2.4 per cent of the personal savings held in these media.

IV. SUMMARY

Thus, by the end of 1962, credit unions were operating in every state and one out of every fourteen Americans held membership in one of the 21,050 operating credit unions. The post-war period has seen credit unions growing at an impressive rate and, except for recent years, a sustained high rate. During this period, credit unions have increased their share of both the consumer installment loan and personal savings markets, becoming the third largest financial institution in the installment credit market. Although credit unions remain relatively small among financial institutions (average assets equalled $345,224 on December 31, 1962), they have been the fastest growing type of financial institution in both the installment loan and personal savings markets.

CHAPTER II

THE GROWTH AND DEVELOPMENT OF CREDIT UNIONS IN LOUISIANA

In the summer of 1924, R. J. Weinmann, a New Orleans attorney, drafted and assisted in guiding through the legislature a bill which was to become Act 40 of 1924, making Louisiana the eighteenth state to adopt legislation providing for the organization of credit unions. In December of that year, the state's first credit union was organized among employees of the New Orleans Post Office. By December 31, 1962, the Post Office Employees Credit Union had assets in excess of one million dollars and its 1,865 members received dividends at the rate of 6.5 per cent on $813,200 in shares.

While few credit unions can boast of the growth pattern demonstrated by this institution, the movement as a whole has shown a remarkable growth rate in Louisiana, interrupted only during the war years of 1942-1943. On December 31, 1962, Louisiana's 97 state and 316 federal credit unions had a total of 199,724 members (6.0 per cent of the Louisiana population) and controlled assets in excess of $92 million. Louisiana's credit unions held four per cent of the institutionalized personal savings and had outstanding 15.5 per cent of the consumer installment loans held by financial institutions in the state. This chapter traces the growth pattern of Louisiana credit unions and compares this development with that of other financial institutions in the state and with credit union growth in the nation as a whole. Special attention is given in the analysis to development during the post World War II period.

I. THE PATTERN OF LOUISIANA CREDIT UNION DEVELOPMENT

During the first decade of existence in Louisiana, the credit union form of financial institution enjoyed but a modest rate of growth. By December 31, 1933, there were only thirteen operating credit unions with assets of $184,000. The small amount of educational and organizational activity that was being carried out was done on a volunteer basis by individuals interested in the credit union form. The year 1934 saw several events which stimulated the rate of development of credit unions. First, the passage of federal legislation providing for establishment of a nation-wide system of federal credit unions increased the volume of publicity and organizational activity and led to the chartering of a number of new credit unions in Louisiana.[1] Second, the greater concentration of effort exerted in the directions of education and organization by the newly formed Louisiana Credit Union League and the Credit Union National Association spread knowledge of the advantages of the credit union form. Finally, improving economic conditions provided an environment conducive to the development of a financial institution operating in the markets for personal savings and consumer loans.

Following passage of federal credit union legislation, the number of credit unions operating in Louisiana increased rapidly

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[1]Among these new credit unions was D. H. Holmes Federal Credit Union of New Orleans which received federal credit union charter number 3 on October 8, 1934.

throughout the latter part of the 1930's and until 1942, reaching a peak of 166 by December 31 of that year. Of this number, 55 were operating under state supervision while 111 were federally chartered. The total number of credit unions in operation declined during the remaining war years, 1943-1945, with federal credit unions being affected somewhat more severely. The number of chartered federal credit unions declined continuously during the 1945-1947 period from 111 in 1942 to 71 in 1947. The number of state credit unions actually continued to increase during 1943 and declined but slightly in 1944-1945 before beginning to expand again in 1946. The number of chartered credit unions in Louisiana, 1930-1962, is shown in Chart 4.

Perhaps a better picture of the volume of Louisiana credit union activity during this period can be gained by observation of financial data. Chart 5 shows the volume of total assets, loans outstanding, and paid-in share capital of all Louisiana credit unions as of December 31 for the years 1931-1962. Using the ratio or semi-logarithmic scale which highlights rates of change rather than amounts of change, Chart 5 shows clearly the high rate of growth experienced by credit union activity during the latter 1930's. Using these financial measures of credit union activity, it can be seen that activity reached a peak in 1941, stabilized or declined but slightly during 1942-1943, and began to rise again in 1944-1947, but at a much more modest rate than in the pre-war period. An exception to this pattern was the volume of loans outstanding which declined sharply during 1942-1943, remained at low levels during 1944-1945, and rose sharply in a catching-up process during 1946-1947. This pattern of development in Louisiana closely

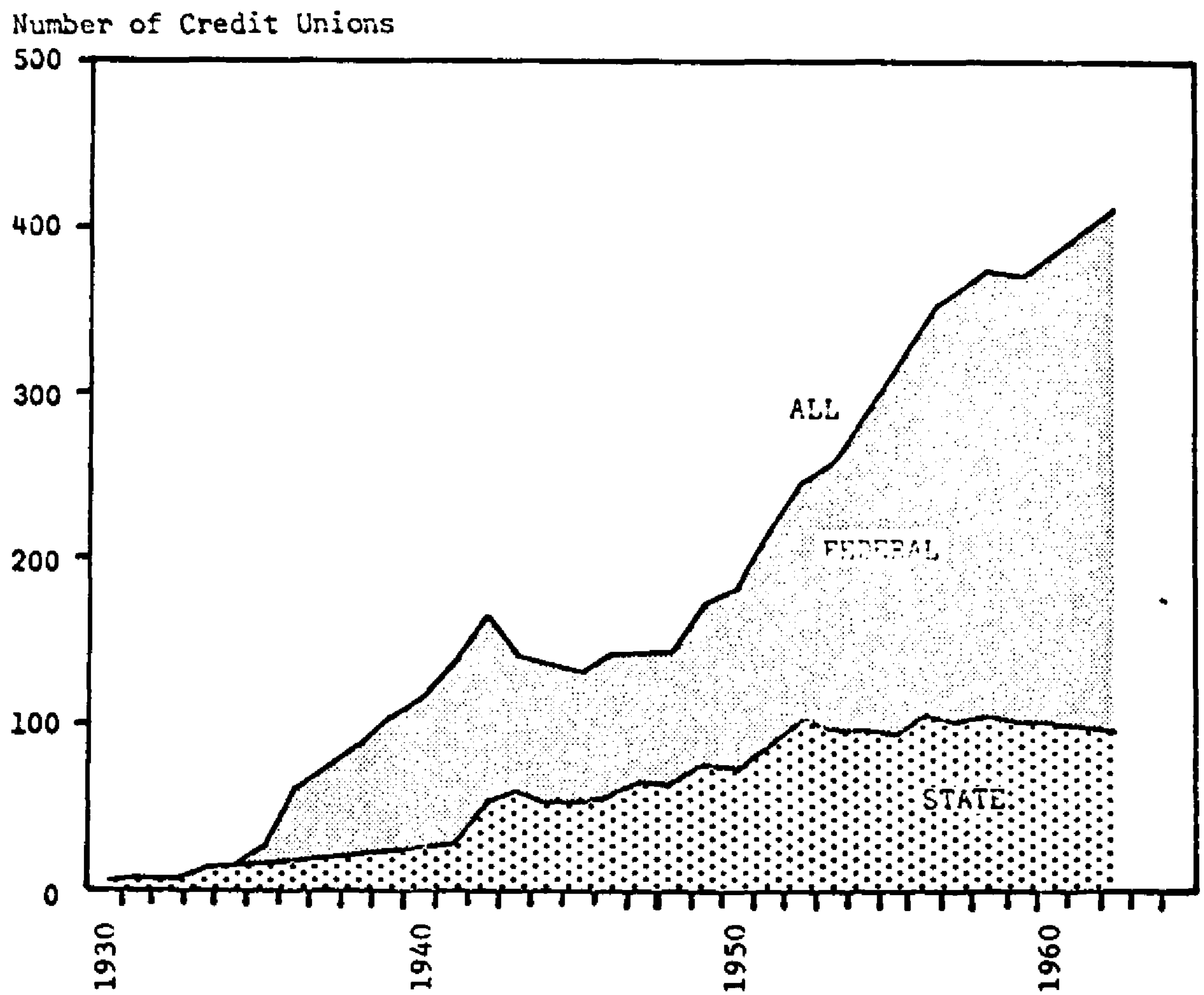

CHART 4. Number of State and Federal Credit Unions in Louisiana, December 31, 1930-1962.
Source: Tables XXVII, XXVIII, and XXIX, Appendix A.

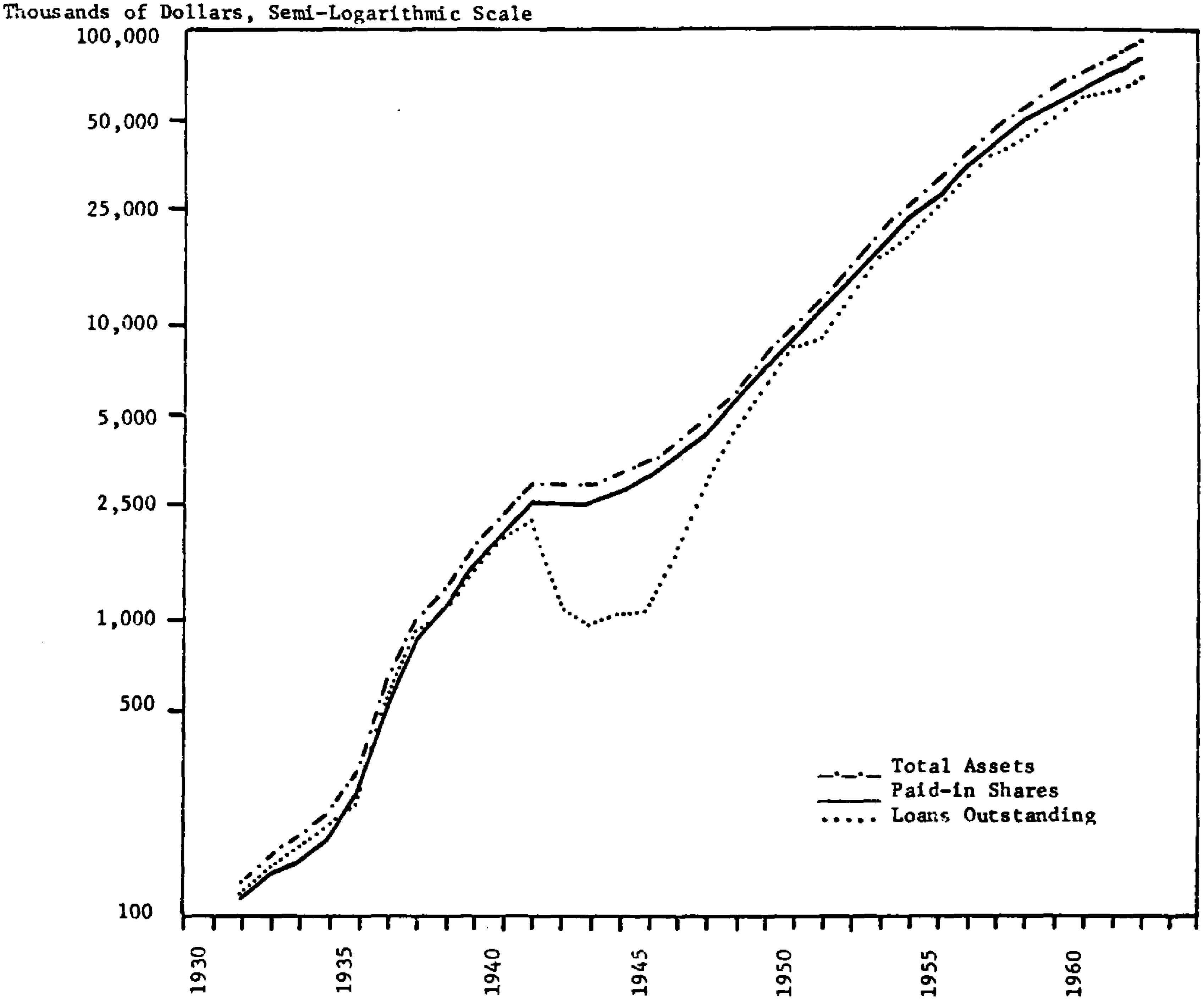

CHART 5. Total Assets, Paid-in Share Capital, and Loans Outstanding of All Credit Unions in Louisiana, December 31, 1931-1962.

Source: Table XXIX, Appendix A.

parallels that of the United States as a whole, as described above in Chapter I.

These financial measures confirm the divergent effects of the war on state and federal credit unions which was shown by the data on number of institutions holding charters. Using total assets for the comparison, reference to Chart 6 shows the relative impact of the pre-war stimulus to activity and the wartime and post-war developments as they affected state and federal credit unions. Although expanding activity less rapidly than federal credit unions during the pre-war period, state-chartered credit unions experienced merely a decline in the rate of growth during the war years of 1942-1945 while federal credit unions had absolute declines in their volume of assets during 1942-1943. This greater impact on federal credit unions can be explained at least in part by the higher number of new institutions formed during the late 1930's, which meant that there were more young institutions holding federal charters at the outset of the war. These credit unions were less able to withstand the shock of an increase in labor turnover and a decline in loan volume which the war effort brought. Yet other reasons for this divergence in trends might be found if it were possible to make detailed comparisons of the operating characteristics of the individual state and federal institutions involved; however, such an examination is neither within the scope of the present inquiry nor is it possible on the basis of presently available information.

The return to peacetime economic and financial conditions following the close of World War II brought a number of factors favorable to the revival of interest in credit unions. Unparalleled prosperity, the result of a continuation of the industrialization of the Louisiana

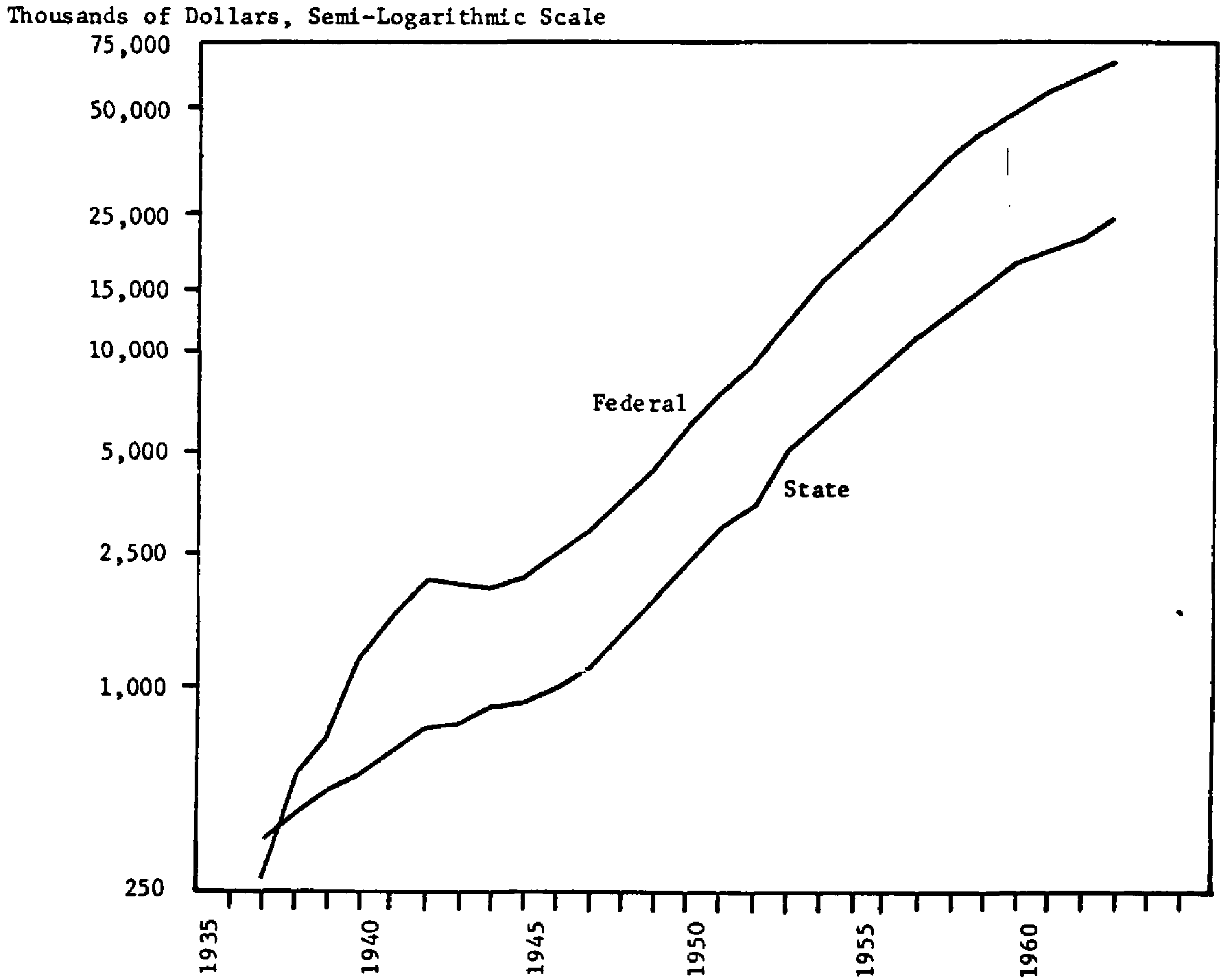

CHART 6. Total Assets of State and Federally Chartered Credit Unions in Louisiana, December 31, 1936-1962.
Source: Tables XXVII and XXVIII, Appendix A.

economy begun during the late 1930's and stimulated by the war effort, provided a healthful environment for the establishment of new credit unions and the expansion of older units. Decline of the patriotic appeal of U.S. savings bonds for the savings dollar of individuals made newly saved funds available to the credit union, and a high level demand for consumer loans of all kinds made it possible for the credit union to offer safety and a substantially higher return to savers than other institutions at that time.

Referring again to Chart 4, one notices that the number of credit unions in Louisiana began to increase again at a fairly rapid rate during the late 1940's and continued to increase with but slight interruption throughout the 1950's and early 1960's. The striking feature of this tremendous growth in the number of institutions is the failure of state-chartered institutions to keep pace in terms of numbers with federal credit unions. Dividing the post-war period into three parts for the purpose of analysis, one sees that while state-chartered credit unions increased in number from 66 in 1947 to 105 in 1952, an average annual growth rate of 9.7 per cent, their numbers actually declined on balance thereafter, leaving only 97 on December 31, 1962, or a net growth rate per year for the entire 1947-1962 period of only 2.6 per cent. At the same time, the number of federally chartered unions increased at an average annual rate of 10.5 per cent during the entire 1947-1962 period; consequently, there were 316 federal credit unions by December 31, 1962, compared with only 71 on that date in 1947. The aggregate number of credit unions grew at an average yearly rate of 7.3 per cent from 1947 to 1962, growing at 11.5, 7.9, and 2.8 per cent per year in the 1947-1952, 1952-1957, and 1957-1962 periods, respectively. These data are shown in Table III.

The pattern of expansion in the number of credit unions during the early post-war period, 1947-1952, can be explained by a number of factors. The wartime lull in formation of new units plus the highly favorable economic conditions of the early post-war period gave impetus to the organization of new credit unions at a rapid rate. Additionally, this was the time at which the Louisiana Credit Union League came under full-time professional management and began a well-managed program of publicity and organization designed to bring the benefits of credit union service to a large proportion of the Louisiana population. Finally, both the Bureau of Federal Credit Unions and the Louisiana Banking Department[2] were granting charters with little restraint to almost any group making application which appeared to be homogeneous and could offer a membership potential in excess of about 50 persons. Thus, the combination of ease in securing a charter, favorable economic conditions, and organizational activity can be credited with the rapid multiplication of credit unions during the 1947-1952 period.

The divergent trend between the establishment of new state and new federal credit unions after 1952 can be attributed largely to a change in attitude on the part of State Banking Department officials toward the free granting of charters. On the basis of a reappraisal of past chartering and experience with undersized, undermanaged, and

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[2]Much of the information about state chartering practices was drawn from an interview with Mr. Clement S. Ruf, Deputy Supervisor, State Banking Department, and Mr. Eads P. Thomas, Credit Union Examiner, State Banking Department, at New Orleans, Louisiana, on January 28, 1963.

TABLE III

AVERAGE ANNUAL RATE OF GROWTH OF CREDIT UNIONS IN LOUISIANA, SELECTED SERIES AND YEARS, 1947 - 1962.

Series	Average annual rate of change (per cent per year)			
	1947-1962	1947-1952	1952-1957	1957-1962
Number of Credit Unions				
State	2.6	9.7	-0.8	-0.8
Federal	10.5	14.8	12.9	4.1
All	7.3	11.5	7.9	2.8
Loans Outstanding				
State	21.9	34.4	20.4	11.9
Federal	24.4	34.5	26.7	13.1
All	23.7	34.4	24.8	12.8
Total Assets				
State	20.7	29.3	20.4	13.0
Federal	22.0	27.7	25.2	13.7
All	21.6	27.9	23.9	13.5
Share Capital				
State	20.6	28.5	20.4	13.4
Federal	21.8	27.6	24.5	13.7
All	21.5	27.9	23.4	13.6

Source: Tables XXVII, XXVIII, XXIX, Appendix A.

nonhomogeneous groups, the Department took a "go slow" attitude toward the issue of further charters with the result that it became relatively more difficult to obtain state than federal charters. Other conditions remaining favorable, the number of new federal credit unions continued to increase at a rapid pace during the 1952-1957 period.

The 1957-1962 period saw several developments which combined to slow the rate of expansion of the number of credit unions. While the "go slow" policy of the state authorities remained in effect,[3] the rate of organization of new federal credit unions began to decline as the Louisiana economy expanded less rapidly and the number of unorganized but potential member groups declined. Less favorable financial conditions tended to slow credit union development also, as commercial banks and other lenders made ever greater efforts to tap the lucrative consumer credit market and as the competition for savings pushed the rates offered by other media into competitive range of the dividend rates being paid by credit unions.

Louisiana credit union activity as indicated by the volume of loans outstanding, share capital, and total assets (Chart 5) grew even more rapidly during the 1947-1962 period than reference to the number of institutions alone shows. Perhaps the most outstanding development in the early post-war activity was the extremely rapid expansion of loans during 1946-1948 as the demand for consumer loans recovered from wartime lows. Even though this "catching-up" process ended by the close

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[3]Only one new charter was issued between January 1, 1959, and December 31, 1962, and this credit union was in the process of liquidation by the latter date.

of the 1940's, credit union activity continued at a rapid pace throughout the entire 1947-1952 period.

Using total assets as a measure of growth in financial strength, reference to Table III shows an average growth rate for all Louisiana credit unions of 21.6 per cent a year over the 1947-1962 period. For the three sub-periods, 1947-1952, 1952-1957, and 1957-1962, the annual growth rate was 27.9, 23.9, and 13.5 per cent, respectively. An interesting feature here is the very close comparative performance of the state and federal units (See Chart 6) in contrast to the divergent growth trend in numbers of credit unions. Both state and federal credit unions showed more rapid growth when viewed from the standpoint of financial measures than when the number of institutions alone was considered; as a result, the average size of both state and federal credit unions increased over the period. (See Table IV).

The pattern of development in financial activity from World War II through 1962 can be explained largely by the same factors which account for the pattern of expansion of the number of new institutions. The average growth rate of 27.9 per cent in both total assets and share (savings) capital and 34.4 per cent in loans outstanding from 1947 to 1952 can be attributed to the highly favorable economic and financial conditions of the period, to promotional activities, and to a catching-up process from the subnormal war period. Continued expansion of the three series in the neighborhood of 24.0 per cent per year during 1952-1957, can be attributed to the same factors, with the possible exception of the catching-up process. And the substantial but less spectacular growth in the demand for credit union services with greater competition being

TABLE IV

AVERAGE ASSETS OF CREDIT UNIONS OPERATING IN LOUISIANA, DECEMBER 31, SELECTED YEARS, 1942-1962.

Year	State	Federal	All
1962	$232,953	$220,486	$223,414
1957	121,562	141,782	136,109
1952	46,127	84,766	64,209
1947	21,211	49,508	34,371
1942	14,183	18,411	17,010

Source: Tables XXVII, XXVIII, XXIX, Appendix A.

faced by credit unions in the markets for consumer loans and personal savings.

It is more difficult to explain the performance of state credit unions relative to their federally chartered counterparts in view of the divergent trends in the number of units. Using mean total assets per credit union as a measure of size, reference to Table V shows that the average annual growth rate in size of state-chartered credit unions consistently exceeded that of federal credit unions during the 1947-1962 period and in the subdivisions of this period. This mathematical fact stems directly from the slower rate of expansion in numbers of units in conjunction with a comparable rate of growth in command over total assets shown by state credit unions.

The greater relative growth rate in average size of state credit unions may be explained at least in part by reference to the growth pattern of credit unions as they develop over time. The size of a credit union tends to increase with age, at least to a point. Several factors account for the tendency of credit union size to expand with the age of the institution: (1) credit unions like other business firms rarely begin operations at their maximum potential levels; thus there is a growth phase within the life cycle of the institution; (2) as the size of the membership group, incomes, and credit demands change, so does the potential volume of activity which can be expected; and (3) there is a strong presumption that credit unions were first begun among groups with the greatest potential level of usage, with the consequence that older institutions had a larger growth potential than more recently organized groups. The comparatively slow rate of formation during the

TABLE V

AVERAGE ANNUAL GROWTH RATE IN MEAN ASSET SIZE OF LOUISIANA CREDIT UNIONS, SELECTED YEARS, 1947 - 1962.

Years	State	Federal	All
1947-1962	17.3	10.5	13.3
1947-1952	16.8	11.4	13.3
1952-1957	21.4	10.8	16.2
1957-1962	16.1	9.2	10.4

Source: Tables XXVII, XXVIII, XXIX, Appendix A.

post-war period, the more stable wartime experience and the earlier enactment of state legislation combine to explain the greater average age of state credit unions. Further analysis of the developmental pattern of state and federally chartered credit unions will be left to Chapter III which contains more detailed study of the operating characteristics of the two forms and a comparison of the legal framework under which each operates.

II. GEOGRAPHIC CONCENTRATION OF CREDIT UNIONS IN LOUISIANA

The movement which began in December, 1924, in New Orleans with the organization of the Postal Credit Union had become state-wide with 413 institutions operating in 39 of Louisiana's 64 parishes by year's end 1962. Still, as Figure 4 reveals, the bulk of credit union operations are confined to the population centers of the state. Three parishes, Caddo, East Baton Rouge, and Orleans, had 33 per cent of the Louisiana population and 60 per cent of the state's credit unions. Seven parishes, the above plus Calcasieu, Lafayette, Ouachita, and Rapides, had 47 per cent of the population and 87 per cent of the credit unions in the state.

Figure 5 shows, by variations in shading, the porportion of each parish's population which held credit union membership on December 31, 1962. Five parishes counted in excess of ten per cent of their populations as credit union members. The state average was six per cent. Among those parishes with credit unions, the percentage of population holding membership varied from one-fifth of one per cent in Franklin to 13.0 per cent in East Baton Rouge. Although Bossier parish had only two

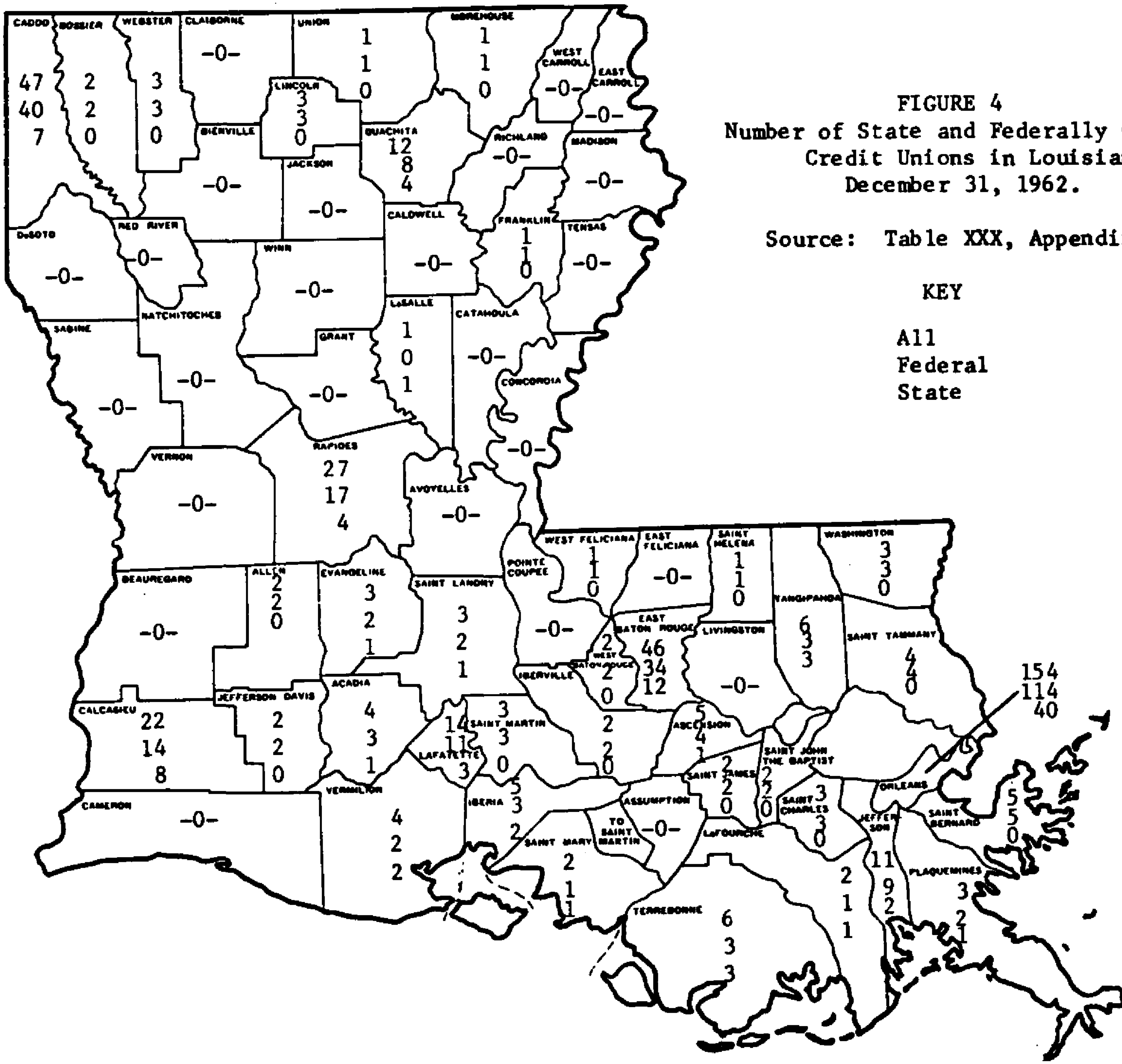

FIGURE 4
Number of State and Federally Chartered Credit Unions in Louisiana, December 31, 1962.

Source: Table XXX, Appendix A.

KEY

All
Federal
State

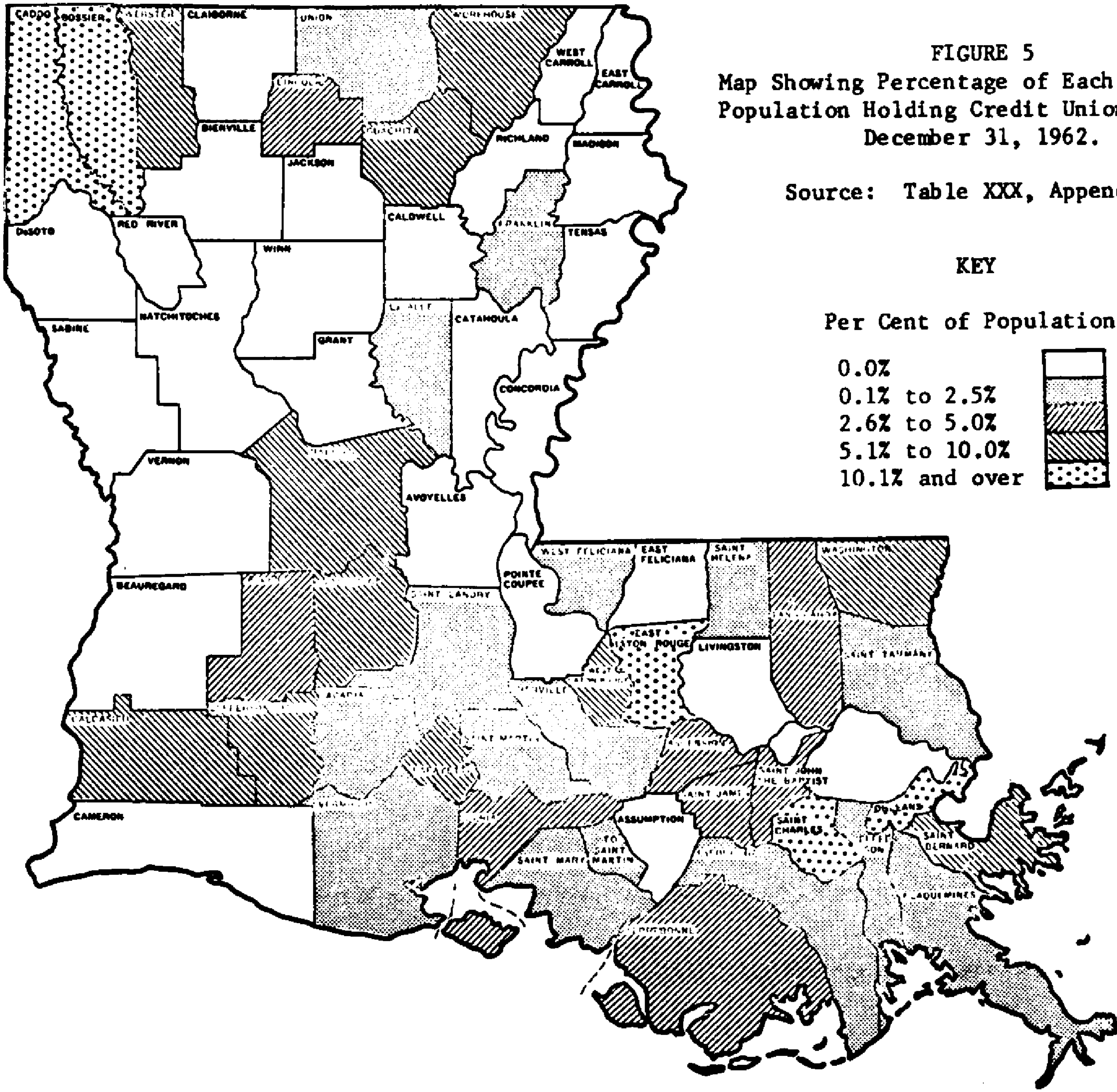

FIGURE 5
Map Showing Percentage of Each Parish's Population Holding Credit Union Membership December 31, 1962.

Source: Table XXX, Appendix A.

KEY

Per Cent of Population

0.0%
0.1% to 2.5%
2.6% to 5.0%
5.1% to 10.0%
10.1% and over

credit unions, one of these was the state's largest with almost 6,600 members and assets of nearly $2.9 million, thus accounting for the high membership ratio shown in Figure 5.

The distribution of average per capita credit union assets among the various parishes is shown by variation in shading in Figure 6. Per capita asset holding averaged $27.71 for the state as a whole, varying from one cent in Franklin parish to $77.91 in St. Charles parish.

This analysis reveals that while credit unions multiplied substantially in numbers, membership and command over assets during their first 38 years in Louisiana, there are yet vast areas which are virtually untouched by the movement. Most striking perhaps is the fact that there are no credit unions operating in 18 of the 28 parishes lying north of the 31st parallel (defined approximately as the southern boundaries of Vernon, Rapides, Avoyelles, and Concordia parishes). The lack of development in the rural areas and prospects for the future will be taken up again in Chapter IV.

III. CREDIT UNIONS IN THE FINANCIAL MARKETS OF LOUISIANA

As financial institutions, credit unions accumulate the savings of members for the purpose of extending credit to qualified members for provident purposes. Thus, credit unions' activities affect both the personal savings and consumer loan markets.[4]

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[4]Although detailed information on the use of credit union loans in Louisiana is not presently available, it is known that a very large proportion of credit union loans are of the consumer installment variety. The credit union laws of Louisiana specifically permit the extention of loans secured by real estate; however, discussion with state officials indicates that this authority has not been used extensively. To the

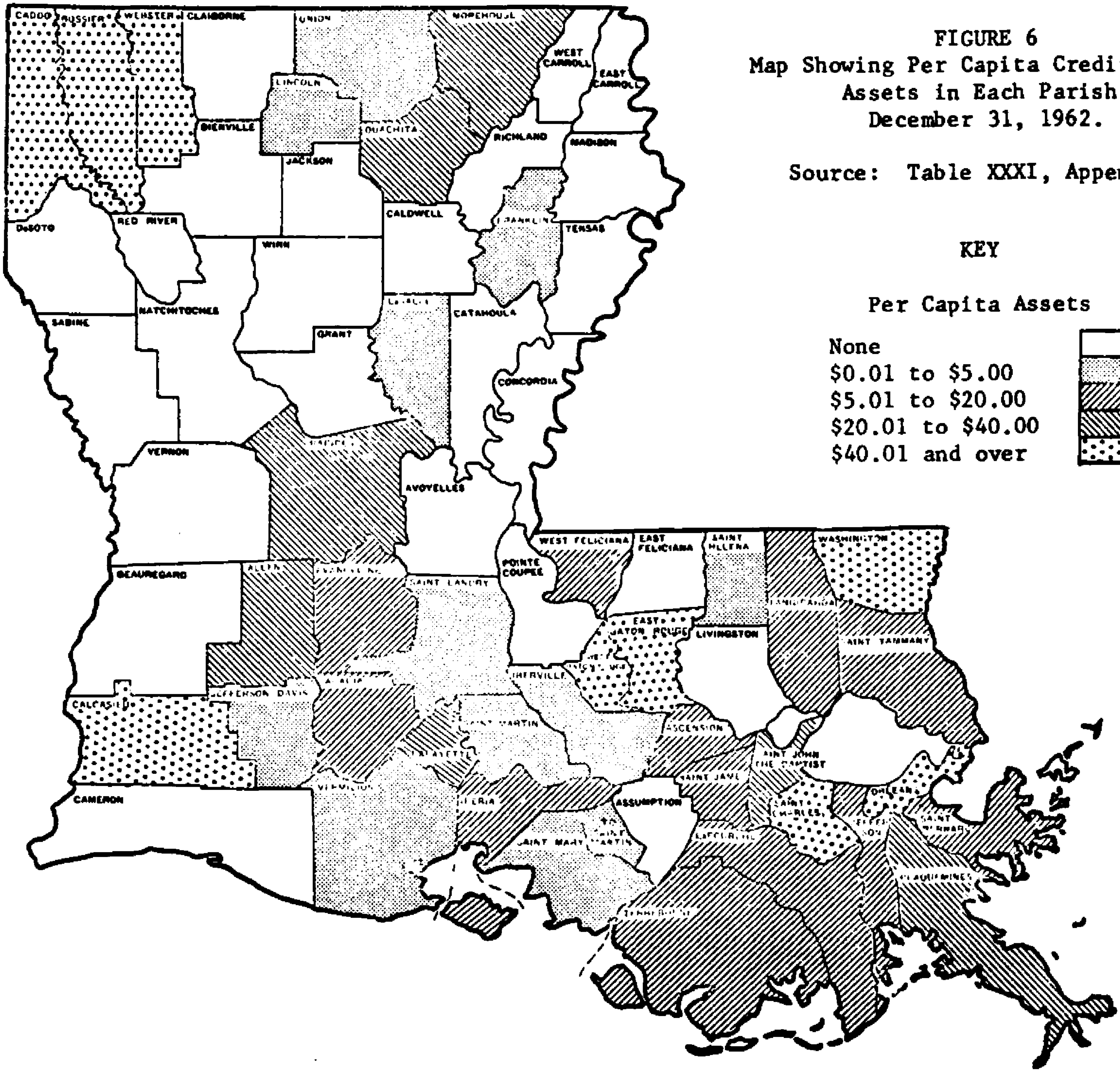

FIGURE 6
Map Showing Per Capita Credit Union Assets in Each Parish, December 31, 1962.

Source: Table XXXI, Appendix A.

KEY

Per Capita Assets

None
$0.01 to $5.00
$5.01 to $20.00
$20.01 to $40.00
$40.01 and over

During the 14 years,[5] 1948-1962, the consumer loan holdings of credit unions, commercial banks, and small loan companies increased at an average annual rate of 11.5 per cent (Table VI). Commercial banks increased their consumer installment loans outstanding at this average rate while credit unions grew at almost twice the average (22.0 per cent) and small loan companies grew at less than one-half of the average rate per year (5.1 per cent). Thus, credit unions in increasing their holdings from $4.2 million on December 31, 1948, to $68.5 million by year's end 1962, increased their market share from 4.4 per cent to 15.5 per cent (Table VII). Small loan companies' market share decreased from 19.0 per cent to 8.2 per cent and the market share of commercial banks remained about the same at over 76 per cent. Credit unions, then, have replaced small loan companies as the second most important source of consumer installment loans among these institutions in Louisiana.

A first glance at the limited information above might indicate that the post-war period has been one of competitive struggle between credit unions and small loan companies for loan business with commercial banks and other lenders maintaining a neutral position. However, deeper analysis of the consumer loan market reveals this to be a rather narrow

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extent that real estate and other investment type ventures have been undertaken by use of credit union loans, the data in Table VII below overstates the amount and market share of credit unions in the consumer installment loan market. And, to the extent that the porportion of credit union loans used for consumption and investment expenditures has changed, the growth rates in Table VI are distorted. The writer does not believe that either distortion is of sufficient magnitude to alter the conclusions.

[5]Because of the unavailibility of statistics on small loan companies during certain years, the time periods selected for discussion of the lending activities of credit unions differ slightly from those used elsewhere in this chapter.

TABLE VI

MEAN ANNUAL GROWTH RATE OF CONSUMER INSTALLMENT LOANS[1] OUTSTANDING BY SELECTED FINANCIAL INSTITUTIONS IN LOUISIANA, SELECTED YEARS, 1948-1962.

Period	Average Annual Percentage Change			
	Credit Unions	Commercial Banks	Small Loan Co's.	Total
1948-1962	22.0%	11.5%	5.1%	11.5%
1948-1957	27.4	12.4	8.5	12.9
1957-1962	12.8	9.9	-0.9	9.2

[1]See Footnote 4, page 49.

Source: Table VII.

TABLE VII

CONSUMER INSTALLMENT LOANS[1] OUTSTANDING BY SELECTED LENDERS
IN LOUISIANA, DECEMBER 31, 1945-1962

Year	Loans Outstanding (Millions of Dollars)				As A Per Cent of Total		
	Credit Unions	Commercial Banks	Small Loan Co's.	Total	Credit Unions	Commercial Banks	Small Loan Co's.
1962	$68.5	$336.8	$36.4	$441.6	15.5%	76.3%	8.2%
1961	61.8	307.6	36.4	405.7	15.2	75.8	9.0
1960	58.3	273.1	36.1	367.5	15.9	74.3	9.8
1959	49.1	253.6	35.1	337.9	14.5	75.1	10.4
1958	42.1	225.4	35.7	303.1	13.9	74.4	11.7
1957	37.5	209.7	38.0	285.1	13.1	73.5	13.3
1956	30.6	189.8	36.9	257.3	11.9	73.8	14.3
1955	24.3	169.5	35.4	229.2	10.6	74.0	15.4
1954	19.3	161.4	32.7	213.4	9.1	75.6	15.3
1953	16.6	149.9	31.5	197.9	8.4	75.7	15.9
1952	12.4	133.1	30.4	175.8	7.0	75.7	17.3
1951	8.9	114.1	28.5	151.5	5.9	75.3	18.8
1950	8.2	116.2	24.9	149.2	5.5	77.8	16.7
1949	5.9	93.6	*				
1948	4.2	73.4	18.2	95.8	4.4	76.6	19.0
1947	2.8	57.3	*				
1946	1.6	40.0	*				
1945	1.1	26.9	*				

* Not Available

[1] See Footnote 4, page 49.

Sources: Credit Union Loans, State Banking Department and Bureau of Federal Credit Unions; Commercial Bank Loans, Comptroller of the Currency; Small Loan Companies, State Banking Department.

view. A number of factors determine the degree of success of the various lenders in obtaining consumer loan business: convenience in securing and repaying the loan; the public image of the lender; and the net cost of the loan, including interest, investigation fees, accounting fees, and loan life insurance.

It would be difficult to conceive of a lending institution offering greater convenience to the borrower than that presented by most credit unions. The credit union is typically located on the premises where the borrower is employed so that loan applications are easily expedited. Wide use of payroll withholding of installment payments makes for ease of repayment. Whether or not he has a feeling of ownership and takes an active part in the policy-making and managerial aspects of the credit union, the borrower, as a member of the credit union, has the knowledge that the institution is in some sense "his" or at least is there to serve members of his group exclusively. Thus, the image of the credit union is likely to be favorable.

Furthermore, the typical[6] credit union interest charge of one per cent per month on the unpaid balance comes to 12 per cent per year as compared to typical rates of 12 to 16 per cent charged by commercial banks, 18 per cent charged by department stores, and 36 to 42 per cent charged by licensed small loan companies.[7] These lower rates place the

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[6]State and federal laws for Louisiana Credit Unions fix one per cent per month on the unpaid balance as the maximum legal rate. While this rate is typical, some credit unions charge less and some have a different rate for loans, depending upon the size of the loan or the use for which the funds are borrowed.

[7]Paul F. Smith found rates charged on consumer finance by consumer finance and sales finance companies fell slightly, on the average, during the 1949-1959 period; average rates charged by commercial

credit union in a favorable position for price competition. The very high growth rate of credit union loans is prima-facie evidence that this form has been successful in competing for borrowers in the post-war period. Commercial banks in Louisiana have proved quite adaptable in the competitive struggle and have been able to hold their own through promotion of consumer loans and a number of innovations designed to make the borrower feel at home in the banking situation. Small loan companies have been less fortunate in meeting competition and have declined in absolute, as well as relative holdings of consumer loans.

In the market for personal savings, credit unions have again been the fastest growing financial institution in the Louisiana economy during the 1947-1962 period. Table VIII shows the amounts of personal savings held by credit unions, commercial banks, savings and loan associations, and postal savings depositories; the percentage distribution of these holdings; and the average annual growth rates of the holdings for the 1947-1962 period. Credit unions increased their holdings of personal savings in share accounts from $4.4 million in 1947 to $80.7 million by December 31, 1962, an average growth rate of 21.5 per cent a year. Over the same period, commercia bank time accounts and savings and loan shares increased by 7.9 and 14.9 per cent respectively, and postal savings decreased at an average rate of 12.2 per cent a year.

Chart 7 shows the percentage distribution of holdings of personal savings by these four types of financial institutions. Credit

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banks rose slightly from 1955-1959; and rates charged by credit unions remained almost constant throughout the period, 1949-1959. Consumer Credit Costs, 1949-59 (Princeton, New Jersey: Princeton University Press, 1964), p. 101.

TABLE VIII

SELECTED DATA ON PERSONAL SAVINGS HELD BY SELECTED FINANCIAL INSTITUTIONS IN LOUISIANA, 1947 - 1962

	1947	1952	1957	1962
Amount (000,000's Omitted)				
Credit Union Shares	$ 4.4	$ 14.9	$ 42.6	$ 80.7
Commercial Bank Time Deposits	275.9	309.6	515.4	860.7
Savings and Loan Shares	130.6	268.7	558.9	1,054.6
Postal Savings	24.3	16.6	8.6	3.5
Totals	$435.2	$609.9	$1,125.5	$1,999.5
As a Per Cent of the Total				
Credit Union Shares	1.0%	2.4%	3.8%	4.0%
Commercial Bank Time Deposits	63.4	50.8	45.8	43.0
Savings and Loan Shares	30.0	44.1	49.6	52.7
Postal Savings	5.6	2.7	0.8	0.2
Totals	100.0%*	100.0%*	100.0%*	100.0%*
Average Annual Percentage Change	1947-1962	1947-1952	1952-1957	1957-1962
Credit Union Shares	21.5%	27.9%	23.4%	13.6%
Commercial Bank Time Deposits	7.9	2.3	10.7	10.8
Savings and Loan Shares	14.9	11.8	16.5	16.6
Postal Savings	-12.2	- 7.3	-12.4	-16.6
Totals	10.7%	7.0%	13.0%	12.2%

*Detail may not total 100.0% due to rounding.

Source: Credit Union Shares, Table XXVIII, Appendix A; Commercial Bank Time Deposits, Comptroller of the Currency; Savings and Loan Shares, U.S., Savings and Loan League; Postal Savings, U.S. Postmaster General.

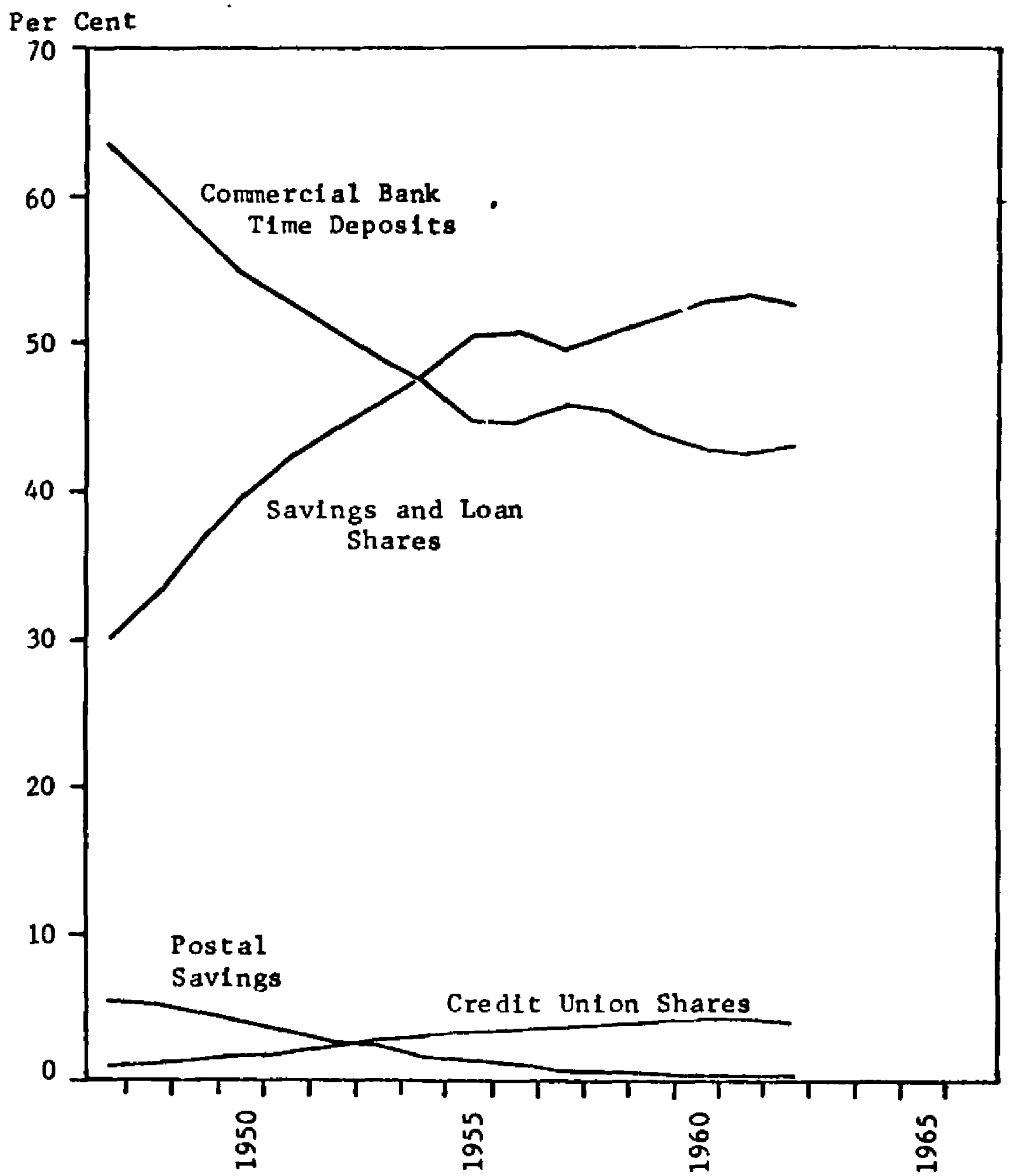

CHART 7. Per Cent of Institutionalized Personal Savings Held by Selected Financial Institutions in Louisiana, December 31, 1947-1962.

Source: Table XXVI, Appendix A.

unions increased their holdings from 1.0 per cent in 1947 to 4.0 per cent by year's end 1962, and savings and loan associations increased their holdings from 30.0 to 52.7 per cent. Commercial banks' share decreased to 43.0 per cent in 1962 from 63.4 per cent in 1947, while postal savings declined to 0.2 from 5.6 per cent of the total.

Savers, not unlike borrowers, seek certain elements when choosing an outlet for their savings. High on the list of preference in choosing a depository for saved funds are safety, liquidity, convenience, and rate of return or interest. Funds placed in credit unions in Louisiana are used to purchase shares of stock in the institution, which give the member the same residual rights before the law as the holder of common stocks in any other corporation. As a practical matter, however, shares may be withdrawn at any time at the option of the member. To provide a cushion of protection to shareholders against loss, both federal and state credit union laws require the institution to retain as a reserve for bad loans an amount equal to 20 per cent of net earnings until the reserve equals at least ten per cent of paid-in shares for federal credit unions and 15 per cent for state credit unions.[8] In addition to the safety factor of reserves against bad loans, credit unions have a very favorable loss ratio[9] and thus can offer the member a high

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[8]The credit union is not required to maintain reserves against share accounts or bad debts in any particular form; thus, the earnings retained provide a cushion for individual share accounts in the event of unpaid loans, but provide no liquidity to handle unusual withdrawal demands nor do reserve requirements exist in a form which would limit lending activity as do commercial bank reserve requirements.

[9]The 316 federal credit unions operating in Louisiana on December 31, 1962, had lost but 16 cents per one hundred dollars of loans extended during their entire operating histories. Report of Operations, 1962 (Washington, D. C.: Bureau of Federal Credit Unions, U.S. Department of Health, Education and Welfare, 1963), XXVIII, p. 24.

degree of safety of funds entrusted to the institution.[10] The convenience of the credit union's location and use of payroll withholding (previously discussed with respect to borrowers) make systematic deposit of savings in the credit union convenient to the member.

Given the factors of safety, liquidity, and convenience, the rate of interest on saved funds can be considered to be a determining factor in the selection of financial assets. During the early post-war period, credit unions experienced a rising demand for loans and were able to offer attractive dividend rates to savers. With little competition for savings in this period of relatively low interest rates, credit unions were able to attract savings at a rapid rate. Low interest rates and a high degree of liquidity in the American economy during the early post-war period, 1947-1952, were a legacy of the wartime and post-war policy (until March, 1951) of the Board of Governors of the Federal Reserve System in supporting the market for United States government obligations. As long as the Federal Reserve System stood ready to purchase U.S. government bonds rather than allow interest rates to rise, it was not necessary for financial institutions to raise interest rates on savings accounts to obtain loanable funds. Rather, they had only to sell government bonds to secure funds to meet loan demands. Since the economy was still highly liquid, return to a flexible monetary policy and flexible interest rates was not reflected in significant competition

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[10] Of course, in the event of widespread withdrawals or loan default, a credit union would almost certainly find itself in difficulty and might well be forced into involuntary liquidation, which could lengthen the amount of time necessary to meet demands of shareholders and lead to some ultimate loss of savings. Efforts to deal with a situation such as this which could take place with changes in the economic environment resulting from a prolonged labor dispute, severe recession or plant closing are taken up in Chapter IV.

for saved funds during the early 1950's. By the mid-1950's, the economy's excess liquidity had been reduced, and there began a marked increase in competition for savings among various savings media.

Dividing the 1947-1962 period into three 5-year periods (Table VIII) reveals the degree to which the various media were successful in competing for personal savings. While credit unions were the fastest growing institutions in terms of personal savings held during the entire 15-year period, their average annual growth rates declined from 27.9 per cent in 1947-1952 to 13.6 per cent during 1957-1962. Savings and loan associations, which increased their holdings at a rate of 14.9 per cent over the 15-year period, increased their rate from 11.8 per cent in 1947-1952 to 16.6 per cent during 1957-1962. Thus, during the period of rising interest rates and high demand for home financing, savings and loan associations were able, through promotional activities and increased dividend rates to become the fastest growing financial institutions in the market for personal savings in Louisiana.

More insight into the reasons for the observed pattern of credit union development can be gained by analysis of the economic nature of the credit union. John T. Croteau,[11] in a penetrating analysis of the role and nature of the credit union as an economic entity, finds that the credit union is an extension of the households which form its membership. In transacting business in the financial markets, the individual household finds itself to be in an inferior bargaining position both in securing a favorable return on saved funds and in obtaining satisfactory interest rates and terms. By forming a

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[11] "The Economic Dimension of Credit Unions," The Economics of the Credit Union (Detroit: Wayne State University Press, 1963), pp. 1-30.

cooperative association with other similarly situated households, it becomes possible, through pooling of savings and lending to members, to overcome the inferior market position of the individual household. To the extent that both savers and borrowers benefit from the association, the credit union is complementary to the goals of all households holding membership, and members can be expected to make extensive use of the credit union's facilities for saving and borrowing. The above factors may well explain the favorable growth rates experienced by credit unions during the 1947-1957 period.

However, in the face of competition from credit unions and changing conditions in the economy (e.g., high loan demands and tighter credit conditions), other savings institutions can be expected to become more competitive in the terms and rates offered to savers. Because of the legal limitations on their lending rates and on their selection of earning assets, credit unions may be unable to make significant adjustments to maintain their relative advantage in the savings market. On the other hand, should other lenders become more competitive in the consumer installment loan market, the credit union, because its rates are already relatively low, would be unable to maintain its comparative advantage as a lender.

Thus, to the extent that other institutions are able to offer terms, convenience, and rates which are comparable to those of the credit union, the relative advantage of credit union participation declines and the level of usage of credit union facilities can be expected to diminish. Rising competition, then, could explain the less spectacular growth rates of the 1957-1962 period. This point will be touched again in Chapter IV where the future role of credit unions in Louisiana is discussed.

Thus, the period from December 31, 1947, to December 31, 1962, has seen rapid development and expansion of credit unions in the markets for consumer installment loans and for personal savings in Louisiana. Credit unions increased their holdings of loans by 24 times, from $2.8 million in 1957 to $68.5 million in 1962, and their holdings of personal savings in share accounts from $4.4 million to $80.7 million over the same period, an 18-fold increase. Yet, with rising competitive pressures, credit unions increased their holdings of consumer loans at only a slightly more rapid rate than commercial banks during the 1957-1962 period (average annual rate of 12.8 per cent for credit unions compared to 9.9 per cent for banks) and fell behind the growth rate of savings and loan associations in personal savings held (average growth rate of 16.6 per cent per year for savings and loans compared to 13.6 per cent for credit unions).

IV. CREDIT UNION DEVELOPMENT IN LOUISIANA COMPARED WITH CREDIT UNION DEVELOPMENT IN THE UNITED STATES

Having analyzed the pattern of development of credit unions in the economy and financial markets of Louisiana, it now becomes appropriate to compare this development with that of similar institutions in the nation. The development of credit unions in the United States as a whole was discussed in some detail in Chapter I and will not be repeated here. However, some of the data from Chapter I have been rearranged to provide relevant comparisons between the growth patterns of Louisiana's credit unions and those of the nation. Using only those savings media for which comparable Louisiana data is available, Table IX shows the growth pattern of credit union shares, commercial bank time deposits,

TABLE IX

SELECTED DATA ON PERSONAL SAVINGS HELD BY SELECTED FINANCIAL INSTITUTIONS IN THE UNITED STATES, 1947 - 1962

	1947	1952	1957	1962
Amount (000,000,000's Omitted)				
Credit Union Shares	$ 0.5	$ 1.3	$ 3.3	$ 6.3
Commercial Bank Time Deposits	52.1	61.6	85.0	132.2
Savings and Loan Shares	9.8	19.3	41.8	80.3
Postal Savings	3.4	2.6	1.5	0.6
Totals	$65.8	$84.8	$131.6	$219.4
As a Per Cent of the Total				
Credit Union Shares	0.8%	1.5%	2.5%	2.9%
Commercial Bank Time Deposits	79.2	72.6	64.6	60.3
Savings and Loan Shares	14.9	22.7	31.8	36.6
Postal Savings	5.2	3.1	1.1	0.3
Totals	100.0%*	100.0%*	100.0%*	100.0%*
Average Annual Percentage Change	1947-1962	1947-1952	1952-1957	1957-1962
Credit Union Shares	19.5%	20.7%	20.3%	13.8%
Commercial Bank Time Deposits	7.1	3.4	6.7	9.2
Savings and Loan Shares	15.1	14.5	16.7	14.0
Postal Savings	-11.1	- 5.1	-11.0	-16.8
Totals	8.4%	5.2%	9.2%	10.8%

*Detail may not total 100.0% due to rounding.

Source: Credit Union Shares, Table XXIII, Appendix A; Commercial Bank Time Deposits, Comptroller of the Currency; Savings and Loan Shares, U.S. Savings and Loan League; Postal Savings, U.S. Postmaster General.

savings and loan shares, and postal savings in the United States during the 1947-1962 period.

From December 31, 1947, to December 31, 1962, credit unions in the United States increased their holdings of personal savings in share accounts from $510 million to $6.3 billion. In growing at an average annual rate of 18.2 per cent over the period, credit unions surpassed the growth rate of all the other selected savings media and increased their share of total personal savings entrusted to these media from eight-tenths of one per cent in 1947 to 2.9 per cent by year's end 1962. The average annual growth rate of Louisiana credit unions in the attraction of saved funds exceeded the growth rate of all United States credit unions by 3.3 percentage points during the 1947-1962 period. The higher growth rate occurred largely during the decade ending in 1957. During the remaining five years to 1962, both Louisiana and United States credit union holdings grew at slightly under 14.0 per cent a year. As in Louisiana, credit unions nationally fell behind savings and loan associations in the rate of attracting new personal savings during the 1957-1962 period.

Although data on installment loan holdings in Louisiana could be secured only for commercial banks, credit unions, and small loan companies, it is possible to make relevant comparisons of the pattern of the development of these lenders in Louisiana with similar institutions in the nation as a whole. Table X shows the amounts, percentage distributions, and mean annual growth rates of holdings of installment loan paper by selected financial institutions in the United States for

TABLE X

INSTALLMENT LOANS OUTSTANDING, MARKET SHARES AND GROWTH RATES FOR SELECTED FINANCIAL INSTITUTIONS IN THE UNITED STATES, DECEMBER 31, SELECTED YEARS, 1950 - 1962

Item	Period		
	1950	1957	1962
Amount in Billions of Dollars:			
All financial institutions	$24.4	$29.2	$41.8
Selected financial institutions	7.7	18.4	28.0
Commercial banks	5.8	12.8	18.9
Credit unions	0.6	2.4	5.0
Consumer finance companies	1.3	3.1	4.1
As a Per Cent of Selected Financial Institutions:			
Selected financial institutions	100.0%	100.0%	100.0%
Commercial banks	75.5	69.8	67.5
Credit unions	7.7	13.2	17.8
Consumer finance companies	16.8	17.0	14.7
Mean Annual Growth Rates:	1950-1962	1950-1957	1957-1962
All financial institutions	4.6%	2.6%	7.4%
Selected financial institutions	11.4	13.3	8.6
Commercial banks	10.4	12.1	8.0
Credit unions	19.4	22.4	15.4
Consumer finance companies	10.2	14.4	5.7

Source: Board of Governors of the Federal Reserve System.

the years 1950, 1957, and 1962. Similar data[12] for Louisiana is shown in Table XI.

Commercial banks, credit unions, and consumer finance companies in the United States increased their aggregate installment loans outstanding at an average rate of 11.4 per cent a year over the twelve years ending December 31, 1962. The fastest growing of these institutions, credit unions, increased their loans from $590 million outstanding on December 31, 1950, to $4,973 million on December 31, 1962, a growth rate of 19.4 per cent per year on the average. This growth rate, almost double that of commercial banks and consumer finance companies, enabled credit unions to increase their share of installment loans from 7.7 per cent of those held by the selected institutions on December 31, 1950, to 17.8 per cent by year's end 1962.

The expansion of Louisiana credit unions in the installment loan market closely paralleled the pattern of credit unions in the nation as a whole. The mean annual growth rate of Louisiana credit union holdings of installment paper was exactly the same as that of all credit unions in the United States, 19.4 per cent, and the increase in market share from 5.5 per cent of installment loans held by the selected institutions on December 31, 1950, to 15.5 per cent by December 31, 1962, was very close to the national pattern. The main differences between the Louisiana experience and that of the United States lies not in growth

[12] The figure used for Louisiana credit unions is "total loans outstanding" and the figure for United States is "installment credit outstanding," a series developed by the Board of Governors of the Federal Reserve System. The latter figure does not include non-installment loans, while the state figure includes all loans outstanding. Since installment loans make up the preponderance of credit union loans, the error introduced here is not significant.

TABLE XI

INSTALLMENT LOANS OUTSTANDING, MARKET SHARES AND GROWTH RATES FOR SELECTED FINANCIAL INSTITUTIONS IN LOUISIANA, DECEMBER 31, SELECTED YEARS, 1950 - 1962

Item	Period		
	1950	1957	1962
Amount in Millions of Dollars:			
Selected financial institutions	$149.2	$285.1	$441.6
Commercial banks	116.2	209.7	336.8
Credit unions	8.2	37.4	68.5
Consumer finance companies	24.9	38.0	36.4
As a Per Cent of Total:			
Selected financial institutions	100.0%	100.0%	100.0%
Commercial banks	77.8	73.5	76.3
Credit unions	5.5	13.1	15.5
Consumer finance companies	16.7	13.3	8.2
Mean Annual Growth Rates:	1950-1962	1950-1957	1957-1962
Selected financial institutions	9.5%	9.7%	9.2%
Commercial banks	9.3	8.8	9.9
Credit unions	19.4	24.2	12.8
Consumer finance companies	3.2	6.2	- 0.9

Source: Comptroller of the Currency and Louisiana Banking Department.

rates or market shares of credit unions, but in the development of commercial banks' holdings of installment credit and, to a lesser extent, the experience of consumer finance companies.

Credit unions, Table X shows, increased their share of installment credit outstanding from 7.7 per cent in 1950 to 17.8 per cent in 1962, while commercial banks in the United States saw their share of installment loans held by the selected financial institutions decline from 75.5 to 67.5 per cent over the same period. The experience of commercial banks nationally contrasts with the experience of commercial banks in Louisiana which maintained their market share in the face of a near tripling of the share of credit unions in the holdings of installment loan paper (Table XI). Nationally, the market share of consumer finance companies declined but slightly from 16.8 per cent in 1950 to 14.7 per cent in 1962, while in Louisiana the percentage holdings fell drastically from 16.7 per cent to 8.2 per cent over the same period.

Thus, the effects of competitive pressures brought to bear by rapid expansion of credit unions during the 1950's and early 1960's fell more heavily on commercial banks nationally and on consumer finance companies in Louisiana. Consequently, the national pattern of development may serve better to explain the competitive interest taken in credit unions by commercial banks. These competitive pressures have led to the introduction of a number of innovations designed to overcome the particular advantages of credit unions in securing installment loan business. These matters are taken up again in Chapter IV.

Compared with the United States, credit unions in Louisiana attracted personal savings at a slightly higher rate than the national averages over the 1947-1962 period and increased their holdings of installment credit at about the same rate as their counterparts throughout the nation.

CHAPTER III

CHARACTERISTICS OF LOUISIANA CREDIT UNIONS

By December 31, 1962, Louisiana had 413 credit unions serving 199,724 members in 39 parishes. Although all were operating within similar legal frameworks and with the common functions of pooling member savings and extending loans to members, the credit unions differed widely from one another in such characteristics as age, type, asset size, membership, loan to asset ratios, dividend rates paid, and so on. This chapter explores the nature of Louisiana credit unions by presenting a comparison of the legal framework provided under state and federal statutes and by comparing the financial and non-financial characteristics of the 413 operating institutions. These latter comparisons are made possible by use of a number of frequency distributions or arrays which were compiled from data on each of the credit unions made available by the Bureau of Federal Credit Unions and the Louisiana Banking Department.

I. THE LEGAL FRAMEWORK

The legal framework within which an economic institution operates, in conjunction with the economic role of the institution, determines its scope and functions. The legal framework of a financial institution is composed of the legislation pertaining to its operation, of actions taken by the regulatory authorities charged with administering the law, and of court decisions affecting the law and its administration.

Credit unions operating in Louisiana are regulated under federal auspices by the Bureau of Federal Credit Unions of the United States Department of Health, Education and Welfare or under state auspices by the Credit Union Division of the State Banking Commission.

While the laws pertaining to credit union operations are quite similar in the overall sense at both the state and federal level, there are a number of small differences as to specific powers and privileges of state and federal unions. Further, administration by the regulatory authorities has differed considerably between state and federal credit unions. This section has two primary purposes: to set out more clearly the powers and functions of credit unions; and to explore the differences and similarities of state and federal credit unions. The former is necessary for a clear understanding of the role of credit unions in the Louisiana economy and the latter will aid in explaining the pattern of development of the two credit union systems and in forming conclusions regarding prospects for future growth.

1. Purpose of the acts. Act number 40 of the 1924 Louisiana Legislature was entitled: "An Act providing for the formation, operation, and regulation of credit unions." This act gave the State Banking Commissioner responsibility and authority to issue charters to persons desiring to organize credit unions and to regulate and supervise such credit unions under the provisions of the act. By way of contrast, the Federal Credit Union Act of June 26, 1934, was entitled "An Act to establish a Federal Credit Union System, to establish a further market for securities of the United States and to make available to people of small means credit for provident purposes through a national system of

cooperative credit, thereby helping to stabilize the credit structure of the United States."

From the outset, then, the federal credit union authorities have had the responsibility of not only chartering and supervising credit unions but of actively organizing new unions with the goal of developing a system of cooperative credit institutions--a responsibility which Louisiana authorities have never had. This responsibility, as much as any other single factor, may serve to explain the observed divergence between state and federal credit union development in Louisiana.

2. Organization, membership, and voting. Both state and federal statutes provide that any seven or more natural persons eligible to belong to the same credit union (and residents of Louisiana in the case of state credit unions) may file an organization certificate stating the name, location, field of membership, and other information necessary for the regulatory authority to determine whether the proposed organization would constitute a credit union under the purposes of the credit union laws.

Before approval of the organization certificate and issuance of a charter, the Director of the Bureau of Federal Credit Unions will investigate the proposed credit union to determine whether it conforms to the provisions of the Federal Credit Union Act, whether the applicants meet qualifications of character and fitness to organize a credit union, and whether the proposed credit union is economically feasible. The State Banking Commissioner will issue a charter incorporating a credit union if satisfied that the affairs of the corporation will be properly administered, and that the proposed field of membership is such as to reasonably assure success of the organization.

The field of membership in both state and federal credit unions is limited to persons having a common bond or to the members of the immediate families of such persons or to organizations composed of persons who are qualified to belong. The common bond may be one of occupation or association or residence in a well-defined community, neighborhood, or rural district.

Credit unions retain the usual practice of voting employed in cooperatives by granting one vote per member in all elections regardless of the share or loan balance of the member.

3. Management. Both state and federal credit union statutes provide for the establishment within each credit union of a board of directors composed of at least five members and credit and supervisory committees with a minimum of three members each to carry out the day-to-day decision-making duties of the organization. Responsibility for the general management of the affairs of the credit union rests with the board of directors which, among other things: acts upon applications for membership; determines, within the limits of the law, the interest rates, terms, and amounts of loans which will be extended; fixes the amount of the faithful performance bond covering each officer or employee who handles money or securities for the credit union; provides for compensation of employees of the credit union; declares dividends; and has charge of the investment funds of the credit union other than loans to members. The directors of federal, but not state, credit unions may appoint an executive committee of at least three members to act for the board in the purchase and sale of securities or the extension of loans to other credit unions and to act upon membership applications.

The credit committee acts upon loan applications of members and, provided funds are available, approves those loans which are for provident or productive purposes and for which the borrower can present adequate assurance (including security) of repayment according to the terms of the loan agreement. If available funds are insufficient to meet all loan demands, preference must be given, other things equal, to small over large loans. The credit committee may approve loans to directors, committee members, officers, and employees only to the extent of the borrower's shareholdings or the shareholdings of any other member who pledges them as security for such loan. Federal law permits the credit committee to appoint one or more loan officers to act for it in approving loan applications, a convenience not granted to state credit unions.

The supervisory committee has the responsibility of conducting periodic audits of the records of the credit union, reviewing the actions of the board of directors, credit committee, officers, and employees and reporting any unsafe or unauthorized practices to the membership.

4. Sources of funds. The primary sources of funds to both state and federal credit unions are the share accounts (savings) of members and undistributed profits. A state credit union may borrow from any source an amount up to 40 per cent of its paid-in and unimpaired capital and surplus, and a federal credit union may borrow from any source up to 50 per cent of its paid-in capital and surplus. Additionally, a federal credit union which extends agricultural loans may discount, without limit, eligible agricultural paper with the Federal Intermediate Credit Bank.

5. Uses of funds. State chartered credit unions may invest their funds in loans to members; securities of the United States, State of Louisiana, or any municipality of Louisiana; homestead (savings and loan) stock; shares of other credit unions up to ten per cent of the purchaser's paid-in capital and surplus; and loans to other credit unions up to 25 per cent of the lending institution's paid-in capital and surplus. Federally chartered credit unions may invest in loans to members; obligations of or guaranteed by the United States; loans to other credit unions up to 25 per cent of the lender's paid-in capital and surplus; and shares of savings and loan associations insured by the Federal Savings and Loan Insurance Corporation.

Both state and federal credit unions are limited by law in the maximum interest rates which may be charged on loans. The maximum rate of interest on loans to members is one per cent per month on the unpaid balance and on loans to other credit unions is one-half of one per cent per month.

The maximum amount of loans to any one member and the maximum term of repayment have been increased over time, largely because of rising incomes and price levels and the changing spending patterns which have increased the demand for consumer credit. Table XII shows these limits as they have been modified over the years.

6. Reserves. State and federal credit union laws require the establishment of reserve funds against possible bad loans and contingencies. State credit unions must set aside for the required reserves all entrance fees, fines, and transfer charges plus 20 per cent of net earnings before dividends, until the reserve fund equals at least 15 per cent

TABLE XII

MODIFICATIONS OF THE MAXIMUM LEGAL SIZE AND TERMS OF LOANS BY STATE AND FEDERAL CREDIT UNIONS IN LOUISIANA THROUGH 1964

Act	Maximum Amount of Loan		Maximum Length of Time for Repayment
	Unsecured	Secured	
		State:	
#40 of 1924	$ 50	$500	No limit set
#257 of 1940	$300	$500 or 10% of paid-in capital and surplus whichever is greater.	
#530 of 1954	$400	$500 or 10% whichever is greater but not over $3,500. Real estate loans 10% or $10,000 whichever is less.	36 months except real estate loans 15 years
#112 of 1964	$750	$500 or 10% whichever is greater but not over $6,000. Real estate unchanged.	5 years
		Federal:	
P.L. 467, 1934 74th Congress	$ 50	$200 or 10% of paid-in capital and surplus.	Not to exceed 2 years
P.L. 630, 1940 76th Congress	$100		
P.L. 574, 1946 79th Congress	$300		
P.L. 376, 1949 81st Congress	$400		Not to exceed 3 years
P.L. 354, 1959 86th Congress	$750		5 years

Source: Legislative Acts of Louisiana and Public Laws of the United States.

of the paid-in capital of the credit union. Federal credit unions must provide for a reserve fund in the same manner until an amount equal to 10 per cent of paid-in capital has been accumulated. Additionally, a special reserve for bad loans must be established by both state and federal credit unions under a sliding scale of rates depending upon the amount and term of delinquent loans.

7. Taxation. Both state and federal credit unions are exempt from income taxation under Section 501 (c) (14) of the Internal Revenue Code. Prior to 1937, when the Congress specifically exempted credit unions, they were ruled to be tax-exempt because of their similarity to savings and loan associations which were designated as tax-exempt under the income tax law of 1913. Dividends are taxed to members as ordinary income.

II. SIZE, AGE, AND OPERATING CHARACTERISTICS

The legal framework makes possible a wide variety of credit unions, all with the same essential function. Credit unions differ from one another in the characteristics of size, type, loan ratios, and performance. This section explores the variety of credit unions that have developed in Louisiana under state and federal supervision.

1. Size and age distribution. The 413 credit unions operating in Louisiana differ widely in size and consequently in economic power. The average credit union operating in Louisiana on December 31, 1962, held assets of $223,414 with little difference in the average size of state and federally chartered units. (See Table XIII). However, averages fail to show the significant variation in the size of Louisiana's

TABLE XIII

AVERAGE NUMBER OF MEMBERS AND AMOUNT OF ASSETS, SHARES OUTSTANDING AND LOANS OUTSTANDING OF STATE AND FEDERAL CREDIT UNIONS IN LOUISIANA, DECEMBER 31, 1962.

	Average Number of Members	Average Amount of Assets	Average Amount of Shares Outstanding	Average Amount of Loans Outstanding
All operating unions:				
State (97)	509	$232,953	$201,502	$178,436
Federal (316)	476	220,486	193,400	161,890
All (413)	484	223,414	195,303	165,776
Operating unions in existence four years or longer:				
State (96)	514	$235,366	$203,588	$180,292
Federal (243)	567	278,874	244,452	203,954
All (339)	552	266,553	232,880	197,253

Source: Compiled from data supplied by the Louisiana Banking Department and the Bureau of Federal Credit Unions.

credit unions. State chartered credit unions ranged in asset holdings from $1,302 to $1,059, 654. Almost half (48.6 per cent) of the state credit unions held assets of between $100,000 and $500,000, while 5.2 per cent had assets of under $10,000 and only 2.1 per cent had assets exceeding $1,000,000 (Table XIV). Federal credit unions varied even more in size of asset holdings, ranging from $39 to $2,952,562. Almost 15 per cent of the federal credit unions held less than $10,000 in assets while five per cent held assets in excess of $1,000,000.

Louisiana credit unions operating in 1962 also differed widely in age. The 413 units were established over a period of 38 years with the consequence that many were well-developed and had been seasoned by years of operating experience through a variety of business conditions while others were new and relatively untested. State and federally chartered units differ more widely in age than in size with 79.4 per cent of the state and only 37.1 per cent of the federal unions having been in operation ten years or more. As shown by Table XV, no state credit unions were under two years of age and only four had been in operation for under five years, while 49 federal credit unions were under two years of age and a total of 90 had operated less than five years.[1]

The relationship between size and age is demonstrated to some extent in Table XIII. When the 74 credit unions which had been operating for less than four years are omitted, average asset holdings of the

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[1]The absence of new state credit unions cannot be accounted for by economic factors and consequently lies outside the scope of this thesis.

TABLE XIV

DISTRIBUTION BY ASSET SIZE OF STATE AND FEDERAL CREDIT UNIONS

OPERATING IN LOUISIANA, DECEMBER 31, 1962.

ASSET SIZE	STATE		FEDERAL		ALL	
	Number	Per Cent*	Number	Per Cent*	Number	Per Cent*
Less than $5,000	3	3.1	31	9.8	34	8.2
$5,000 to $9,999	2	2.1	16	5.1	18	4.4
$10,000 to $24,999	4	4.1	49	15.5	53	12.8
$25,000 to $49,999	15	15.5	44	13.9	59	14.3
$50,000 to $99,999	13	13.4	39	12.3	52	12.6
$100,000 to $249,999	28	29.0	69	21.8	97	23.5
$250,000 to $499,999	19	19.6	32	10.1	51	12.3
$500,000 to $999,999	11	11.3	20	6.3	31	7.5
$1,000,000 to $1,999,999	2	2.1	9	2.8	11	2.7
$2,000,000 to $4,999,999	0	0.0	7	2.2	7	1.7
Total	97	100.0	3.6	100.0	413	100.0

Source: Compiled from data supplied by Louisiana State Banking Department and Bureau of Federal Credit Unions.

*Detail may not total 100.0% due to rounding.

TABLE XV

AGE DISTRIBUTION OF STATE AND FEDERAL CREDIT UNIONS

OPERATING IN LOUISIANA ON DECEMBER 31, 1962

AGE IN YEARS	State		Federal		All	
	Number	Per Cent	Number	Per Cent	Number	Per Cent
Under 2	0	0.0	49	15.5	49	11.9
2 but under 5	4	4.1	41	13.0	45	10.9
5 but under 10	16	16.5	109	34.5	125	30.3
10 but under 15	32	33.0	60	19.0	92	22.3
15 but under 20	11	11.3	4	1.3	15	3.6
20 and over	34	35.1	53	16.8	87	21.1
Total	97	100.0*	316	100.0*	413	100.0*

*Detail may not add to 100.0 because of rounding.

Source: Louisiana State Banking Department and Bureau of Federal Credit Unions.

remaining units are $266,553, with state credit unions averaging $235,366 and federal credit unions holding assets of $278,874. Membership, share accounts, and loans outstanding show a similar relationship.

Thus, the legal framework has made it possible for a large variety of sizes of credit unions to develop over a fairly substantial period of time. While small size and brevity of operating experience does not necessarily preclude a credit union from fulfilling its economic functions, size may influence the credit union's ability to meet the needs of its members and materially affects its vulnerability to recessions, strikes, and even seasonal economic conditions. Since smallness in size is more characteristic of federal than state chartered unions, one would expect to find those problems associated with smallness occurring more frequently in the federally chartered credit unions.

2. Type and dividend distribution. Credit unions are formed among groups of people having some common bond of relationship. This common bond may be employment by the same firm or in the same industry, membership in the same organization, or residence in the same neighborhood. Table XVI shows the distribution of those credit unions over four years old among the three types and by average shareholdings per member. Of the state and federal credit unions which had been in operation four or more years on December 31, 1962, over 84 per cent were based on the common bond of occupation while 13 per cent were based on association and three per cent on residence.

Average shareholdings per member tended to be larger in occupational credit unions than in other types. In only 19.5 per cent of the occupational credit unions were shareholdings per member

TABLE XVI

AVERAGE SHARES PER MEMBER OF CREDIT UNIONS FOUR YEARS OLD OR OLDER OPERATING IN LOUISIANA, DECEMBER 31, 1962

SHARES PER MEMBER	BASIS OF MEMBERSHIP							
	Occupation		Association		Residence		Total	
	Number	Per Cent	Number	Per Cent	Number	Per Cent	Number	Per Cent
FEDERAL:								
Under $100.00	14	6.8%	16	51.6%	1	20.0%	31	12.8%
$100.00 - 199.99	28	13.5	8	25.8	3	60.0	39	16.0
$200.00 - 299.99	36	17.4	3	9.7	0	0.0	39	16.0
$300.00 - 399.99	45	21.7	3	9.7	1	20.0	49	20.2
$400.00 - 499.99	29	14.0	1	3.2	0	0.0	30	12.3
$500.00 - 599.99	32	15.5	0	0.0	0	0.0	32	13.2
$600.00 - 699.99	11	5.3	0	0.0	0	0.0	11	4.5
$700.00 - 799.99	7	3.4	0	0.0	0	0.0	7	2.9
$800.00 - 899.99	3	1.4	0	0.0	0	0.0	3	1.2
$900.00 - 999.99	2	1.0	0	0.0	0	0.0	2	.8
$1,000.00 and over	0	0.0	0	0.0	0	0.0	0	0.0
Totals:	207	100.0%*	31	100.0%*	5	100.0%*	243	100.0%*
STATE:								
Under $100.00	3	3.8%	0	0.0%	1	33.3%	4	4.2%
$100.00 - 199.99	11	13.9	3	21.4	1	33.3	15	15.6
$200.00 - 299.99	15	19.0	5	35.7	1	33.3	21	21.9
$300.00 - 399.99	17	21.5	3	21.4	0	0.0	20	20.8
$400.00 - 499.99	17	21.5	1	7.1	0	0.0	18	18.8
$500.00 - 599.99	5	6.3	1	7.1	0	0.0	6	6.3
$600.00 - 699.99	5	6.3	1	7.1	0	0.0	6	6.3
$700.00 - 799.99	4	5.1	0	0.0	0	0.0	4	4.2
$800.00 - 899.99	0	0.0	0	0.0	0	0.0	0	0.0
$900.00 - 999.99	0	0.0	0	0.0	0	0.0	0	0.0
$1,000.00 and over	2	2.5	0	0.0	0	0.0	2	2.1
Totals:	79	100.0%*	14	100.0%*	3	100.0%*	96	100.0%*
ALL:								
Under $100.00	17	5.9%	16	35.6%	2	25.0%	35	10.3%
$100.00 - 199.99	39	13.6	11	24.4	4	50.0	54	15.9
$200.00 - 299.99	51	17.8	8	17.8	1	12.5	60	17.7
$300.00 - 399.99	62	21.7	6	13.2	1	12.5	69	20.4
$400.00 - 499.99	46	16.1	2	4.4	0	0.0	48	14.2
$500.00 - 599.99	37	12.9	1	2.2	0	0.0	38	11.2
$600.00 - 699.99	16	5.6	1	2.2	0	0.0	17	5.0
$700.00 - 799.99	11	3.8	0	0.0	0	0.0	11	3.2
$800.00 - 899.99	3	1.0	0	0.0	0	0.0	3	.9
$900.00 - 999.99	2	.7	0	0.0	0	0.0	2	.6
$1,000.00 and over	2	.7	0	0.0	0	0.0	2	.6
Totals:	286	100.0%*	45	100.0%*	8	100.0%*	339	100.0%*

*Detail may not total 100.0% due to rounding factor.

Source: Compiled from data supplied by Louisiana Banking Department and Bureau of Federal Credit Unions.

less than $200 on the average, while average shareholdings in 60.0 per cent of the associational and 75.0 per cent of the residential credit unions were below $200. (See Table XVI.)

3. Performance of Louisiana's credit unions. The nature of the credit union is such that its success in meeting the needs of members is not entirely subject to statistical measure. Nevertheless, some insights may be gained into the performance characteristics of credit unions by observing their dividend payments and the degree to which saved funds are channeled into loans to members.

The dividend rate paid by a credit union will affect the ability of the institution to attract and to hold members' savings. Since the function of a credit union is to accumulate the savings of members and use these funds to extend loans to members, the ability to attract savings is essential to success.

Dividend rates paid during 1962 by credit unions in Louisiana which had been in operation for four years or more are shown in Table XVII. Less than five per cent of the 339 credit unions had no dividend distribution during 1962, and 237 (or 69.9 per cent) paid dividends of 4.0 to 5.9 per cent. Those credit unions based on a common bond of association indicated weakness since they made up only 13.3 per cent of all credit unions four years old and older but accounted for 43.8 per cent of those not paying dividends in 1962.

To test the relationship between size and performance, an array was prepared showing both asset size and dividend rate paid during 1962. As shown in Table XVIII, the very small unions tended to

TABLE XVII

DIVIDEND RATES PAID DURING 1962 BY CREDIT UNIONS IN LOUISIANA FOUR YEARS OLD OR OLDER

DIVIDEND RATE PAID	BASIS OF MEMBERSHIP							
	Occupation		Association		Residence		All	
	Number	Per Cent	Number	Per Cent	Number	Per Cent	Number	Per Cent
FEDERAL:								
0.0 - 0.9	5	2.4%	5	16.1%	0	0.0%	10	4.1%
1.0 - 1.9	0	0.0	1	3.2	0	0.0	1	0.4
2.0 - 2.9	4	1.9	3	9.7	0	0.0	7	2.9
3.0 - 3.9	13	6.3	3	9.7	1	20.0	17	7.0
4.0 - 4.9	69	33.3	14	45.2	4	80.0	87	35.8
5.0 - 5.9	79	38.2	4	12.9	0	0.0	83	34.2
6.0 - 6.9	37	17.9	1	3.2	0	0.0	38	15.6
7.0 - 7.9	0	0.0	0	0.0	0	0.0	0	0.0
8.0	0	0.0	0	0.0	0	0.0	0	0.0
Totals:	207	100.0%*	31	100.0%*	5	100.0%*	243	100.0%*
STATE:								
0.0 - 0.9	4	5.1	2	14.3	0	0.0	6	6.3
1.0 - 1.9	0	0.0	0	0.0	0	0.0	0	0.0
2.0 - 2.9	3	3.8	0	0.0	1	33.3	4	4.2
3.0 - 3.9	4	5.1	2	14.3	1	33.3	7	7.3
4.0 - 4.9	23	29.1	8	57.1	1	33.3	32	33.3
5.0 - 5.9	33	41.8	2	14.3	0	0.0	35	36.5
6.0 - 6.9	10	12.7	0	0.0	0	0.0	10	10.4
7.0 - 7.9	0	0.0	0	0.0	0	0.0	0	0.0
8.0	2	2.5	0	0.0	0	0.0	2	2.1
Totals:	79	100.0%*	14	100.0%*	3	100.0%*	96	100.0%*
ALL:								
0.0 - 0.9	9	3.1	7	15.6	0	0.0	16	4.7
1.0 - 1.9	0	0.0	1	2.2	0	0.0	1	0.3
2.0 - 2.9	7	2.4	3	6.7	1	12.5	11	3.2
3.0 - 3.9	17	5.9	5	11.1	2	25.0	24	7.1
4.0 - 4.9	92	32.2	22	48.9	5	62.5	119	35.1
5.0 - 5.9	112	39.2	6	13.3	0	0.0	118	34.8
6.0 - 6.9	47	16.4	1	2.0	0	0.0	48	14.2
7.0 - 7.9	0	0.0	0	0.0	0	0.0	0	0.0
8.0	2	0.7	0	0.0	0	0.0	2	0.6
Totals:	286	100.0%*	45	100.0%*	8	100.0%*	339	100.0%*

*Detail may not total 100.0% due to rounding factor.

Source: Compiled from data supplied by Louisiana Banking Department and Bureau of Federal Credit Unions.

TABLE XVIII

DISTRIBUTION BY ASSET SIZE AND DIVIDEND RATE PAID BY STATE AND FEDERAL CREDIT UNIONS OPERATING IN LOUISIANA DURING 1962

Asset Size December 31, 1962	Dividend Rate Paid During 1962				
	Less than 2.0%	2.0 to 3.9%	4.0 to 5.9%	6.0% and over	Total
Less than $5,000	29	3	2	0	34
$5,000 to $9,999	9	3	6	0	18
$10,000 to $24,999	8	12	32	1	53
$25,000 to $49,999	6	16	36	1	59
$50,000 to $99,999	1	6	42	3	52
$100,000 to $249,999	1	2	75	19	97
$250,000 to $499,999	0	1	38	12	51
$500,000 to $999,999	0	0	22	9	31
$1,000,000 to $1,999,999	0	0	7	4	11
$2,000,000 to $4,999,999	0	1	5	1	7
All credit unions	54	44	265	50	413
	Percentage Distributions				
Less than $5,000	85.3%	8.8%	5.9%	0.0%	100.0%
$5,000 to $9,999	50.0	16.7	33.3	0.0	100.0
$10,000 to $24,999	15.1	22.6	60.4	1.9	100.0
$25,000 to $49,999	10.2	27.1	61.0	1.7	100.0
$50,000 to $99,999	1.9	11.5	80.8	5.8	100.0
$100,000 to $249,999	1.0	2.1	77.3	19.6	100.0
$250,000 to $499,999	0.0	2.0	74.5	23.5	100.0
$500,000 to $999,999	0.0	0.0	71.0	29.0	100.0
$1,000,000 to $1,999,999	0.0	0.0	63.6	36.4	100.0
$2,000,000 to $4,999,999	0.0	14.3	71.4	14.3	100.0
All credit unions	13.1%	10.6%	64.2%	12.1%	100.0%

Source: Compiled from data supplied by the Bureau of Federal Credit Unions and the State Banking Commission.

pay either no dividends to shareholders or very small rates.[2] As size increases, the number and proportion of credit unions paying very low dividend rates tended to diminish rapidly. The proportion of credit unions paying 2.0 to 3.9 per cent dividends to shareholders increased with asset size up to $50,000 and declined thereafter. The proportion in the 4.0 to 5.9 per cent group increased with size up to $100,000 and subsequently declined. Most striking is the growth in the proportion of credit unions paying 6.0 per cent or more throughout the size range up to $2,000,000. Those few very large credit unions with assets exceeding $2,000,000 provided a minor exception to the tendency for dividend rates to increase with asset size.

There is, then, a strong implication that dividend rates tend to rise with asset holdings at least until a fairly large size is attained. Further, to the extent that payment of dividends indicates efficiency, large credit unions tend to be more efficient than small credit unions. The economies of scale may result from lower unit costs or more efficient utilization of available funds.

Credit unions operating in Louisiana on December 31, 1962, showed a wide divergence in the ratio of loans outstanding to share capital. In only two-thirds (66.5 per cent) of the operating credit unions were loans outstanding between 60 and 105 per cent of share capital. In 14.7 per cent of the credit unions loans outstanding were less than 60 per cent of shares and in 18.6 per cent of the credit unions loans were more than 105 per cent of share capital. (See Table XIX.)

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[2] The relationship between asset size, dividend rate, and age is illustrated by the fact that original data show that of the 39 credit unions with assets of under $10,000 which paid less than 2.0 per cent, 25 had been in operation less than two years.

TABLE XIX

LOANS OUTSTANDING AS A PER CENT OF SHARE CAPITAL OF CREDIT UNIONS OPERATING IN LOUISIANA, DECEMBER 31, 1962

	NUMBER OF CREDIT UNIONS IN THIS CLASS			PER CENT OF CREDIT UNIONS IN THIS CLASS		
	Federal	State	Total	Federal	State	Total
Under 30.0	8	4	12	2.5%	4.1%	2.9%
30.0 - 44.9	15	5	20	4.7	5.2	4.8
45.0 - 59.9	18	11	29	5.7	11.3	7.0
60.0 - 74.9	62	10	72	19.6	10.3	17.4
75.0 - 89.9	61	23	84	19.3	23.7	20.3
90.0 - 104.9	98	21	119	31.0	21.6	28.8
105.0 - 119.9	33	18	51	10.4	18.6	12.3
120.0 - 134.9	17	3	20	5.4	3.1	4.8
135.0 and Over	4	2	6	1.3	2.1	1.5
Totals	316	97	413	100.0%*	100.0%*	100.0%*

*Detail may not total 100.0% due to rounding factor.

Source: Compiled from data supplied by Louisiana State Banking Department and the Bureau of Federal Credit Unions.

The divergency was greater among state than among federal units. Thus, on December 31, 1962, a significant number of credit unions were well below lending capacity as represented by shares while many other credit unions were extending loans with funds secured from sources other than members' savings. The failure of members' savings and borrowing needs to be exactly offset within any one credit union at a particular time is dealt with in the following chapter.

Table XX was prepared to show the relationship between asset size and loan to share ratio. Loan to share ratios for very small credit unions tended to vary considerably. For those credit unions operating on December 31, 1962, the ratio of loans outstanding to total members' shares tended to rise with asset size and to show more central tendency up to asset size $250,000. In the size ranges above $250,000, loan to share ratios generally were smaller than for credit unions in the $10,000 to $250,000 asset size groups. The very large credit unions, with assets of $2,000,000 or more, had neither very low nor very high loan to share ratios.

To gauge the relative profitability of various loan to share ratios, Table XXI relates the loan to share ratio of Louisiana credit unions on December 31, 1962, with dividend rates paid to shareholders in 1962. Credit unions with a low proportion of their members' savings invested in loans typically paid very low dividends. In 26 of the 32 credit unions with loan to share ratios of under 45 per cent, dividends were less than 4.5 per cent.

In general, higher loan to share ratios were associated with higher dividend rates. The tendency for dividend rates to rise with the per cent of members' shares invested in loans is shown especially by the

TABLE XX

DISTRIBUTION, BY ASSET SIZE, OF LOANS OUTSTANDING AS A PERCENT OF SHARE CAPITAL FOR CREDIT UNIONS OPERATING IN LOUISIANA, DECEMBER 31, 1962

Asset Size	Loan to Share Ratio					
	Under 30.0%	30.0-59.9%	60.0-89.9%	90.0-119.0%	120.0% & over	Total*
Less than $5,000	9	7	8	7	3	34
$5,000 to $9,999	0	3	8	6	1	18
$10,000 to $24,999	1	5	16	26	5	53
$25,000 to $49,999	0	7	19	26	7	59
$50,000 to $99,999	0	8	15	25	4	52
$100,000 to $249,999	2	12	39	42	2	97
$250,000 to $499,999	0	3	24	23	1	51
$500,000 to $999,999	0	3	16	10	2	31
$1,000,000 to $1,999,999	0	1	5	4	1	11
$2,000,000 to $4,999,999	0	0	5	2	0	7
All credit unions	12	49	155	171	26	413
Percentage Distributions*						
Less than $5,000	26.5%	20.6%	23.5%	20.6%	8.8%	100.0%
$5,000 to $9,999	0.0	16.7	44.5	33.3	5.6	100.0
$10,000 to $24,999	1.9	9.4	30.1	49.0	9.4	100.0
$25,000 to $49,999	0.0	11.9	32.2	44.0	11.9	100.0
$50,000 to $99,999	0.0	15.4	28.9	48.1	7.7	100.0
$100,000 to $249,999	2.1	12.3	40.2	43.3	2.1	100.0
$250,000 to $499,999	0.0	5.9	47.1	45.1	2.0	100.0
$500,000 to $999,999	0.0	9.7	51.7	32.3	6.5	100.0
$1,000,000 to $1,999,999	0.0	9.1	45.5	36.4	9.1	100.0
$2,000,000 to $4,999,999	0.0	0.0	71.4	28.6	0.0	100.0
All credit unions	2.9%	11.9%	37.5%	41.4%	6.3%	100.0%

*Detail may not equal 100.0% due to rounding factor.

Source: Compiled from data supplied by the Bureau of Federal Credit Unions and the State Banking Commission.

TABLE XXI

DISTRIBUTION BY LOAN TO SHARE RATIO OF DIVIDEND RATES PAID DURING 1962 BY CREDIT UNIONS OPERATING IN LOUISIANA ON DECEMBER 31, 1962

Loans as a Per Cent of Share Capital	Dividend Rate Paid During 1962					
	0 to 1.4%	1.5 to 2.9%	3.0 to 4.4%	4.5 to 5.9%	6.0% and over	Total
			Number			
Under 30.0%	11	0	1	0	0	12
30.0% to 44.9%	5	0	9	6	0	20
45.0% to 59.9%	3	2	7	14	3	29
60.0% to 74.9%	5	2	22	38	5	72
75.0% to 89.9%	10	1	18	44	11	84
90.0% to 104.9%	12	8	22	61	16	119
105.0% to 119.9%	1	2	9	29	10	51
120.0% to 134.9%	4	0	6	5	5	20
135.0% and over	2	0	0	4	0	6
Totals	53	15	94	201	50	413
			Percentage Distributions			
Under 30.0%	91.7%	0.0%	8.3%	0.0%	0.0%	100.0%
30.0% to 44.9%	25.0	0.0	45.0	30.0	0.0	100.0
45.0% to 59.9%	10.3	6.9	24.1	48.3	10.3	100.0
60.0% to 74.9%	6.9	2.8	30.6	52.8	6.9	100.0
75.0% to 89.9%	11.9	1.2	21.4	52.4	13.1	100.0
90.0% to 104.9%	9.2	6.7	18.5	51.3	13.4	100.0
105.0% to 119.9%	2.0	3.9	17.6	56.9	19.6	100.0
120.0% to 134.9%	20.0	0.0	30.0	25.0	25.0	100.0
135.0% and over	33.3	0.0	0.0	66.7	0.0	100.0
Totals	12.8%	3.6%	22.8%	48.7%	12.1%	100.0%

Source: Compiled from data supplied by the Bureau of Federal Credit Unions and the State Banking Commission.

grouping of credit unions paying dividend rates of 4.5 to 5.9 per cent in the loan to share ranges of 45 to 120 per cent, and by the definite tendency of the proportion of credit unions paying 6.0 per cent or more to rise as loan to share ratios rise. The tendency for high dividend rates to be associated with high loan to share ratios disappears for very high loan to share levels above 120 per cent. The small number of credit unions with loan to share ratios exceeding 135 per cent makes generalization a somewhat risky enterprise.

It seems clear that, based upon the limited measuring device of the dividend rate, credit unions do become more profitable as they succeed in investing a larger proportion of their funds in loans to members, at least to a point. It is apparent also that a fairly wide range of loan to share ratios may yield more or less equal results in the form of dividends to shareholders but that the extremes of very low or very high loan to share ratios are less profitable. The lower profitability of those credit unions with low share to loan ratios may be explained by the differential between rates earned on loans to members and those earned on alternative investments (savings and loan shares, certificates of deposit, loans to other credit unions, and so on). The tendency toward lower profitability of credit unions with very high loan to share ratios is less marked and less subject to generalization. Some credit unions with high loan to share ratios had quite good results[3] while others performed poorly. Those which had low dividend rates

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[3]A notable example was one state credit union which on December 31, 1962, had assets exceeding $1,000,000, a loan to share ratio of 124 per cent, and paid dividends to 6.6 per cent during the year.

coupled with high loan to share ratios tended to be small units which typically pay lower dividend rates and which may have been unable to secure favorable terms on borrowed funds.

CHAPTER IV

THE CREDIT UNION AS A FINANCIAL INSTITUTION IN LOUISIANA: ITS ROLE, PROBLEMS, AND PROSPECTS FOR FUTURE GROWTH

In order fully to understand and adequately to evaluate an economic institution, one must look beyond its historical development, its legal framework, and its operating characteristics to ask the questions: What, in an economic sense, is the function of the institution? Does the organization and legal framework enable the institution to perform its task? What, if any, are the shortcomings of this economic institution that would hinder its performance of that task and how might these shortcomings be corrected?

The credit union is a financial institution operating as an intermediary in the financial markets of Louisiana. It is the purpose of this chapter to explain the role of the credit union as it affects its members, alternative financial institutions, and the economy as a whole. Additionally, the problems of liquidity, solvency, and equity are discussed as they affect the intermediary role of the credit union. Finally, the problems and prospects for future credit union growth and the desirability of growth are treated.

I. THE ROLE OF FINANCE AND FINANCIAL INTERMEDIATION

Broadly conceived, finance encompasses three primary functions: the provision of a satisfactory medium of exchange and measure of value;

the provision of a market for the transfer from hand to hand of financial instruments; and the transfer of funds from surplus spending units (those that receive more current income than they desire to spend currently) to deficit spending units (those units which desire to spend more currently than they receive as income).[1] It is the latter function of finance which is of interest in this particular thesis.

Finance operates through the medium of financial institutions. Some of these financial institutions serve as brokers, coming between the surplus spending units (the savers) and the deficit spending units (the borrowers), primarily as a communications link. Other financial institutions play a more direct role in the transfer of funds from savers to borrowers. These institutions place themselves between the ultimate lenders and borrowers by offering to the lenders securities which are, in fact, obligations of the financial intermediary and in turn by purchasing the direct securities of the ultimate borrower.[2]

By pooling the savings of a number of surplus spending units, several benefits derive to the saver. One benefit is the reduced risk of loss. Since the financial institution spreads its purchase of primary securities over a number of borrowers, the default of one or two need not endanger the principal of the individual saver. Additionally, since the securities purchased by the financial institution typically have staggered

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[1] Erwin W. Boehmler (ed.), and Roland I. Robinson, Frank H. Gane, and Loring C. Farwell, Financial Institutions (Homewood, Illinois: Richard D. Irwin, Inc., 1956), p. 21.

[2] John G. Gurley, "Financial Institutions in the Saving-Investment Process," Proceedings of the Second Annual Conference on Savings and Residential Financing, 1959 (United States Savings and Loan League, Chicago). Reprinted in Readings in Financial Institutions, edited by Marshall D. Ketchum and Leon T. Kendall (Boston: Houghton Mifflin Co., 1965), p. 10.

maturities and since the financial institution is continuously receiving additional saved funds, the individual saver gains liquidity in that he can usually convert the financial institution's obligation into cash with little or no time delay and little risk of loss.

At the same time, the deficit spending unit benefits from the financial intermediary in that the deficit spending unit can secure larger loans than could be secured from any one primary lender and on better terms. The risk of loss to the ultimate lender is less, the liquidity of the ultimate lender's funds is greater, and often the convenience to the ultimate lender is enhanced by the intermediary function. Thus, the ultimate lender, i.e., the surplus spending unit, does not require as large a return as in direct lending, and the ultimate borrower can use the funds for a longer period of time.

The economy as a whole also benefits from the presence of the financial intermediary. Since safety, liquidity, and convenience to the surplus spending unit or saver is increased, saving should be stimulated and saved funds should be channeled into the spending stream with little delay. On the other hand, the cost of using funds is decreased and the convenience in using borrowed funds is increased for the ultimate user of funds, i.e., the deficit spending unit; therefore, more activity can be expected on the part of the deficit spending unit.

Society benefits because the financial system works more smoothly and more adequately to meet the needs of both surplus and deficit spending units. The benefit is both a more rapid transfer of funds (and therefore more complete utilization of economic resources) and an increase in the absolute amount of funds which are likely to change hands.[3] The social benefit of the transfer of funds from savers to borrowers is present in the utility of time choice in the use of funds and the choice of goods available to purchasers who can make larger expenditures from accumulated savings or from loans.

II. THE CREDIT UNION AS A FINANCIAL INTERMEDIARY

The financial role of the credit union is clearly that of intermediary. To the saver, the credit union offers a financial instrument--credit union shares. These shares are true risk capital in the event of liquidation of the business, but during normal operations credit union shares take on characteristics very dissimilar from ordinary common stock. Credit union shares typically have no physical existence except on the account books of the organization. The purchase of shares is essentially a "deposit" transaction physically, although not legally. The borrowing member exchanges his promise to repay the principal and interest on specific terms and over a specific period of time in exchange for the immediate use of funds.

The surplus spending unit, seeking an outlet for saved funds, seeks an optimal combination of safety, convenience, liquidity, and rate of return. To the extent that the credit union offers a more attractive "package" than alternative savings media, the member-saver gains from the presence of the credit union. If the credit union's "package" is less attractive, presumably the saver will select the more attractive alternative.

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[3] *Ibid.*, p. 7.

Similarly, the deficit spending unit, seeking a source of borrowed funds, seeks an optimal combination of convenience, terms of repayment and interest cost. To the extent that the credit union offers a more attractive combination of factors to the borrower than alternative lenders, the member-borrower benefits from the services of the credit union. If terms of the credit union's loans are less favorable than those of another lender, presumably the credit union will lose the business.

The intermediary function of the credit union is distinguished from the intermediary function of other financial institutions in that credit union membership is restricted to persons having some common bond of association other than their membership in the credit union. The common bond of employment, club or church membership, or residence has nothing to do with the desire for saving or lending facilities, but may serve as a catalyst for organization of a cooperative to meet the needs of surplus or deficit spending households.

To the extent that credit unions are successful in attracting saved funds, they do so largely to the exclusion of other savings media.[4] The credit union, then, increases the competition for saved funds. To the extent that credit unions provide competition for saved funds, or indeed, to the extent that potential competition is presented by the possibility of increased credit union activity, alternative savings media are put under pressure to improve the "package" of convenience, liquidity, safety and yield offered to households.

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[4]Unless, of course, credit unions actually stimulate saving, in which case the credit union would attract funds in competition with alternative consumer goods and services. Since credit unions do provide a savings media for some people who would otherwise be inadequately served, in these cases at least, they probably do stimulate saving.

Increasing competition for saved funds has been quite evident in the financial markets of Louisiana and the United States in the post-war years. This competition has led to higher interest rates on United States savings bonds, higher dividend rates and greater convenience offered by homestead and savings and loan associations, and by a concerted effort by commercial banks to attract savers through offering geeater convenience ("bank by mail," "automatic transfer from demand to time accounts," "drive-in banking," etc.), and higher effective interest rates and a host of different savings plans.

The degree to which credit unions have intensified the competition for saved funds cannot be quantified. If the competitive pressure exerted by credit unions is in proportion to their share of institutionalized personal savings held, then the credit union's influence in the market for saved funds could be dismissed as insignificant.[5] Additionally, it is possible to trace much of the increased pressure to attract personal savings to the general reduction in the liquidity of the financial system following the return to a flexible monetary policy in 1951.

It is possible to argue, however, that credit unions have had a more than proportionate competitive influence on rival institutions, at least at times. The market for the savings of low- and middle-income families is probably not national or even state-wide. These families probably look within the community for an outlet for their saved funds. To the extent that this is true, tightness in the national financial markets would not be reflected in the "package" offered to savers at the

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[5]Table VIII in Chapter II shows that credit unions in Louisiana held only 4.0 per cent of the institutionalized personal savings on December 31, 1962.

local level, unless there were alternative users of such funds who would compete for the opportunity to use the savings.

On the other hand, the presence of any number of rival users of saved funds would be unimportant insofar as real competition is concerned during a period of ease in the financial markets. When funds are readily available, there is no reason for savings media to improve their offerings to households in order to secure funds.

Coupling these observations with the actual growth record of savings media in Louisiana during the post-World War II period (Chapter II), it is possible to assign a greater competitive influence to credit unions than their relative size alone would indicate.

The competitive effect of credit unions in the installment loan market is quite similar to their effects in the market for personal savings.[6] To the extent that a credit union can be expected to write loans to the exclusion of alternative lenders, this competitive influence can be expected to bring about changes in the convenience, terms, and rates charged by alternative lenders.[7]

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[6]Credit unions held 15.5 per cent of the installment contracts held by selected financial institutions in Louisiana on December 31, 1962. (See Table XI, Chapter II.) Nationally, credit unions held 12.0 per cent of all institutionalized installment loans on December 31, 1962. (See Table X.)

[7]Smith found that average finance charges on consumer loans by credit unions were generally lower than rates charged by either the consumer finance companies, sales finance companies, or commercial banks studied and that rates charged by all four types of lenders on personal loans declined from 1955 to 1959. For a comparison of finance charges on consumer credit by selected lenders, see Paul F. Smith, Consumer Credit Costs (Princeton, New Jersey: Princeton University Press, 1964), pp. 78 and 99.

There are several significant constraints on the competitive pressures which credit unions can exert. One of these limitations is the interdependence of the saving and lending functions. The credit union must have customers for its loans; otherwise it cannot offer terms favorable enough to attract savings. On the other hand, a credit union must have loanable funds if it is to have any influence in the loan market. Thus, both activities must expand simultaneously for the credit union to grow. If rival institutions in either the savings or loan market succeed in meeting (or beating) the credit union's "package," the competitive effectiveness of the credit union in the other market is suppressed. This is especially true because of the close regulation of credit union activities which limits its ability to secure business (i.e., the limited field of membership), sets maximum interest charges, limits dividends, rates and method of payment, and so on. If for no other reason than the restricted field of membership, credit unions have much less flexibility in adjusting rates and terms in order to compete for deposits and loans.

Thus, credit union growth exerts competitive pressure upon alternative savings and lending institutions. This competition tends to cause the rivals to improve the "package" offered to the public and society benefits generally from the better service provided by its financial institutions. As rivals come to meet the competition of the credit union, credit union growth rates become self-limiting because the credit union's ability to secure business is strictly confined.

If it could be shown that competition from credit unions continues with such force as to eliminate rivals, then the social value of the rivals' activities in areas other than savings depository and installment lending would have to be weighed in assessing the social desirability of credit unions. If, for example, commercial banks tended to be driven out of business or severely hampered in their operations, society might wish to rethink its position on the sponsorship of credit unions. The Louisiana experience indicates, however, that credit unions have not substantially eliminated competitors from the savings and credit markets.

III. SOME PROBLEMS AFFECTING THE INTERMEDIARY FUNCTION OF THE CREDIT UNION

In order successfully and continuously to operate as a financial intermediary, an organization must have certain characteristics with regard to its financial and operating capacities. A part of the "package" offered to surplus spending units (savers) are liquidity, safety, and equitable treatment. To deficit spending units the "package" contains ready availability of credit (again a form of liquidity) and continuous operation. Having examined the economic nature of the credit union and its legal framework, it is appropriate to look into possible problem areas before attempting to evaluate the credit union as an economic unit or project the probability of its future development in Louisiana. This section, then, explores the problems of liquidity, solvency, and equity as they relate to the credit union.

1. Liquidity. For the purposes of this section, liquidity may be defined as the degree of convertibility of an asset into a readily spendable form without risk of loss. Money is the most liquid of all assets since no conversion is necessary to make it spendable. Other assets vary in degree of liquidity depending upon the speed and risk associated with their conversion into money.

Households desire liquidity of saved funds because liquidity gives them freedom to use the funds immediately to make planned expenditures and investments, to take advantage of unusual opportunities, or to meet unexpected emergencies. If liquidity were the only goal of the household in the disposition of saved funds, households would have little need for credit unions. In addition to liquidity, households desire earnings from their accumulated savings. In attempting to balance the desire for liquidity and earnings, the factors of safety of principal and convenience will be considered by the surplus spending unit.

Because savers desire a high degree of liquidity for at least a substantial portion of their funds, credit unions must stand ready to provide liquidity or they will not be able to attract these funds. Credit unions, then, desire liquidity in order to meet share withdrawal demands by members. Further, credit unions need liquidity in order to meet other obligations and to meet loan demands. Illiquidity would render the credit union unable to meet shareowner demands for withdrawal, thus limiting the institution's usefulness to savers, and would result in inability to lend, consequently limiting its usefulness to borrowers.

The credit union uses funds received from the sale of shares to lend to members and purchase other such investments as are legal (see Chapter III). Typically, loans are of the installment variety, so that during normal times there is a fairly continuous flow of funds into the institution from loan repayments and from the sale of shares to savers.

The more or less continuous flow of funds into the institution contributes to a substantial degree of liquidity. A saver desiring to use his funds for some other purpose presents his withdrawal form and the credit union, in essence, retires its outstanding shares--an operation taking from a few minutes to a day.

The credit union, then, must balance its need for liquidity with its need for earnings. The immediate source of liquidity to the credit union is cash on hand and in demand deposits at commercial banks. Other sources of liquidity would be conversion of assets (government securities, savings and loan shares, certificates of deposit, etc.) into cash; loans from commercial lenders and other credit unions; and, in normal times, the day-to-day flow of loan repayments and new savings.

During normal times, credit union managers can come to gauge the probable demand for funds to meet withdrawals, new loans, and operating expenditures and prepare for these needs without either running short of funds or accumulating large stores of idle cash. At times, however, even the most prudent management of credit union funds may not be sufficient to meet the conditions which emerge. Because credit union members have a common bond of association, and this bond in Louisiana is most often the bond of employment, a large proportion (if not all) of the membership is likely to experience the same economic fortunes at the same time. Thus, a strike, plant closing or natural disaster is likely to affect both savers and borrowers at about the same time and in the same way. Savers will stop adding to their share accounts and request redemption of shares, borrowers will desire extension of their outstanding loans and others will apply for new loans. Unless it is able to convert its major assets, *i.e.*, the notes of members, into cash very rapidly, the credit union will face a severe disruption in operation.

Intermittent interruptions in credit union ability to repay savings and extend new loans is undesirable from the member's standpoint because it lowers the degree of liquidity of his savings and makes the credit union a less reliable source of emergency loans. Such interruptions are undesirable from the viewpoint of society as a whole because the effects of instability in operations at one plant or in one industry (such as might occur with a strike) are more rapidly translated to the remaining sectors of the economy if employees in the plant or industry experiencing difficulty are also unable to withdraw their savings from the credit union in order to maintain household spending levels at something near previous levels.

The economic and social value of the credit union form could be strengthened by the presence of a source of ultimate liquidity to the credit union. This source of liquidity would have to be able to lend to credit unions (or discount their members' notes) in sufficient amounts to allow the credit union to meet withdrawal requests and other obligations and perhaps to make emergency loans if credit union services are not to be interrupted in times of severe stress. Such a lender of last resort would also prevent the effects of the work stoppage from being felt as severely by the rest of the economy; consequently, it would have a stabilizing effect.

The idea of a central bank for credit unions is not new; in fact, the original Federal Credit Union Act as introduced in 1934 contained provisions for establishment of federal central credit unions operating within each state and having as members both federal- and state-chartered credit unions.[8] However, the entire section was deleted from the bill prior to enactment. Bills were introduced in the 74th, 81st, 82nd, 83rd, 84th, and 86th Congresses which would have provided for establishment of federal central credit unions, regional credit unions, or allowed federal credit unions to hold membership and shares in state-chartered central credit unions. None of these bills were passed and no provision has been made for ensuring the liquidity of funds entrusted to credit unions other than internal management decisions and the usual external sources of credit such as commercial banks and other credit unions.

Unfortunately, all of these proposals suffered from the same basic deficiency: in each case the new organization or new authority would have been constructed within the same basic credit union framework with the same inherent liquidity problems associated with the credit union. Perhaps the primary reasons for this deficiency were the failure to clearly define as a primary goal of the new institution the provision of a lender of last resort to the credit union and the simultaneous inclusion of the goals of supplying credit unions with a source of low-cost credit to meet member loan demands whenever they exceeded share deposits and an interest-bearing outlet for temporarily idle funds.

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[8] A Study of the Nature and Role of Central Credit Unions and of the Desirability of Providing for Federally-Chartered Central Credit Unions (Washington: Bureau of Federal Credit Unions, United States Department of Health, Education, and Welfare, 1960), p. 5.

Indeed, it was stated in the summary of the proposed regional credit union bill that:

> The basic objective of the proposal is to establish a method by which credit unions may supplement funds derived from their members' share purchases in order to make additional loans to their members for the provident or productive purposes that are characteristic of the credit union movement.[9]

The proposed regional credit unions would have had essentially the same framework as existing credit unions except that their geographic area of operations would have been expanded so that six to twelve institutions would serve the entire United States; membership would be open only to credit unions, not persons; and the limitations on borrowing powers, interest charges, and so on would be different. No provision was made for access to the Federal Reserve System for credit in times of stress and no provision was made for discounting the paper of member credit unions in amounts exceeding existing limits (50 per cent of paid-in capital and surplus). Clearly, then, this proposal, which seemed to be the most promising of the so-called central credit union bills, did not envision establishment of a lender of last resort which could eliminate the liquidity problem inherent in the credit union.

Although not permitted by federal law, a number of state laws permit organization of credit unions which serve the need for a savings depository and source of loans to credit union officers who must, because of their positions, restrict their use of loan privileges from their own units. These organizations frequently count among their members other

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[9] "Regional Credit Union System," Congressional Record, C, (February 3, 1954), Part I, p. 1251.

credit unions which have either temporarily idle funds or which need additional funds for lending to members. In commenting upon proposed legislation which would have allowed federal chartering of similar "centrals" and the participation of federal credit unions, the Director of the Bureau of Federal Credit Unions emphasized the danger inherent in a system whereby, during times of stress, the central would have the same liquidity problems as member units with the simultaneous rise in withdrawal and loan requests and no certain outside source of funds.[10]

Pursuant to a directive contained in Public Law 86-354 (Section 3), the Director of the Bureau of Federal Credit Unions made for submission to the Congress in 1960 a study of the desirability of providing federally chartered centrals.[11] The director found that 31 states had laws providing for the establishment of institutions which could include among their membership other credit unions and that these "centrals" were, in other regards, subject to the same regulatory and statutory limitations as other credit unions.[12] Furthermore, the typical small size of the centrals relative to total credit union obligations in

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[10] J. Deane Gannon, Statement in Federal Credit Unions, Hearings before Subcommittee Number 3 of the Committee on Banking and Currency, House of Representatives, Eighty-Sixth Congress, First Session (Washington: United States Government Printing Office, 1959), pp. 127-128.

[11] A Study of the Nature and Role of Central Credit Unions and of the Desirability of Providing for Federally-Chartered Central Credit Unions (Washington: Bureau of Federal Credit Unions, United States Department of Health, Education, and Welfare, 1960).

[12] Ibid., pp. 4-5.

each state, the tendency for wide seasonal flows of funds into and out of the centrals, and the absence of an outside source of funds led the director to conclude:

> ...their need for liquidity is certainly no less than other credit unions and in fact by virtue of accepting share accounts from credit unions their need may be substantially greater. However, no built-in liquidity was found in the central credit unions studied.[13]

John T. Croteau envisions the establishment of a national "Central Credit Society" under federal legislation which would have as its functions:

> (1) to serve as a reservoir of liquidity to enable credit unions, by short-term borrowing, to meet seasonal or exceptional loan or share withdrawal demands; (2) by intermediate-term loans to provide assistance in the growth of local credit unions which are experiencing a loan demand in excess of their current savings; (3) to serve as a "lender of last resort," where a credit union can, if necessary, discount up to 100 per cent of its note holdings.[14]

Croteau outlines a fairly wide variety of possible organizational frameworks which he feels would be satisfactory for the Central Credit Society. Such matters as alternative means of establishing the controlling body; decisions as to whether offices will be maintained in one central location or regionally; whether or not membership shall be compulsory; and means of funding the institution are discussed. Surprisingly enough, however, Croteau does not suggest that the Society's ability to fulfill its obligations as a lender of last resort be ensured with a tie to the nation's monetary authority--an oversight

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[13] Ibid., p. 12.

[14] A National Central Credit Society and the Liquidity Problem of the Credit Union Movement (Madison, Wisconsin: Credit Union National Association, 1960), p. 6.

which Croteau criticized in a proposed national co-operative credit society in Canada.[15] Certainly a central credit society could be sufficiently funded initially so that it would have no practical need of access to the Federal Reserve System in time of liquidity crisis, but such funding might require a substantial portion of the nation's credit union resources and might prove a costly way of providing liquidity.

The United States has gone without the benefits of an institution designed to ensure the liquidity of credit union funds partly because of the failure to clearly define the purposes of a central credit society. Croteau improves this point substantially but action has not yet been taken. The existence of a number[16] of "central credit unions" at the state level may at the same time create false confidence in the liquidity of credit union funds and increase the probability of a liquidity crisis since their assets are likely to become "frozen" in times of economic stress.

In Louisiana, League Central Credit Union was established in 1942, to extend the full benefits of credit union membership to officers and employees of Louisiana credit unions who are restricted by law and propriety in their utilization of the lending services of their own credit unions. State-chartered credit unions are allowed to hold shares in League Central but may borrow only up to the amount of their shareholdings; consequently, League Central provides no liquidity

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[15] John T. Croteau, "Co-operative Central Banking in Canada," Canadian Journal of Economics and Political Science, XVII, No. 4 (November, 1951), p. 536.

[16] On December 31, 1962, 32 states and Puerto Rico had "centrals." "Central Credit Unions," The Credit Union Bridge Magazine, XXVIII, No. 4 (April, 1963), p. 24.

for member credit unions and might even compound liquidity problems if several credit unions needed to withdraw shares at the same time. Thus, Louisiana credit unions have no access to a lender of last resort to strengthen their financial position in time of crisis.

A brief outline of one type of discount facility which would serve the primary need of liquidity provision is presented in Chapter V.

2. Solvency. For the purposes of this section solvency may be defined as the condition of a credit union's assets being equal to or greater than its obligations to creditors and shareholders. Maintenance of solvency is important if the organization is to prevent the erosion of members' equity. As a going concern, maintenance of solvency should involve a prudent loan and investment policy; a good system of internal accounting and audits; and bonding of personnel who handle the assets of the credit union. None of these precautions should present insurmountable difficulty for reasonably intelligent management.

It is in the event of liquidation that the matter of solvency is likely to become a severe problem. Indeed, insolvency is one of the conditions which can cause a credit union to be placed into liquidation by state or federal regulatory authorities. Historical records of credit union liquidations in Louisiana are quite sparse.[17] Information on scaledowns (writing down members' share accounts to the level of actual assets) is likewise unavailable. Nevertheless, the risk to

[17]Mr. Eads P. Thomas of the Credit Union Division of the Louisiana Banking Department reported in an interview on August 7, 1963, in New Orleans, that 166 credit unions had been chartered from the inception of the state Act in 1924 to December 31, 1959, and that 65, or 39 per cent, of those chartered had subsequently been liquidated.

savers is present and doubtless reduces the degree to which households rely upon the credit union as a savings medium.

The value of credit unions to members and society could be substantially increased if some system were developed for the guarantee of at least a substantial portion of share balances and if this system were so organized as to immediately redeem shares in the event of liquidation. Disposal of the assets of the credit union could then be undertaken without the pressure of shareholders' needs for their funds causing disorderly and unwise acceleration of the process. The absence of an adequate share insurance system presents some serious equity as well as convenience problems. The member who decides, for whatever reason, to withdraw his shares prior to the commencement of liquidation proceedings may be paid immediately in full while members who wait are forced to forego withdrawals while liquidation proceedings are consummated, and they may incur losses on their share balances as well.

The credit union movement has employed several alternative programs to assure the solvency of individual units and to protect members' share accounts. Beginning with Michigan in 1955, the leagues in over one-half of the states had established some form of stabilization program by December, 1962.[18] The individual programs varied widely as to method of financing and operational characteristics. Generally the activities of the stabilization funds were directed through the credit union leagues. The most frequent forms of financial assistance to

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[18]"Stabilization Programs," The Credit Union Bridge Magazine, XXVIII, No. 2 (February, 1963), unnumbered insert.

liquidating or distressed credit unions were loans and purchase of members' notes. Non-financial assistance was provided most often in the form of advice from fund personnel and service as liquidating agent for the unit.[19]

Close association of the stabilization funds with state leagues generally results in membership being limited to those unions which participate in the league. Membership in the funds usually does not guarantee any particular amount of support (or any at all) in the event of liquidation or financial crisis. Members' share accounts are not guaranteed. Because of the small resources of the funds,[20] such guarantees would be meaningless to any except the smallest credit unions and not to them in the case of simultaneous difficulty of several units.

In 1958, the Louisiana Credit Union League, in recognition of the problems that insolvency creates for members, society, and for potential expansion of the credit union movement, established a stabilization fund to assist weak credit unions either to liquidate without loss to members or to restore sound operations.[21] By March 31, 1963, the stabilization fund had accumulated assets of $2,249[22] and had been used only twice to aid weak credit unions. Since Louisiana credit unions had paid-in shares of almost $81 million on December 31, 1962,

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[19] Ibid.

[20] The largest stabilization fund, in Michigan, had total assets of $476,803 in September, 1962. The New York and Iowa funds had $159,406 and $150,926 respectively in November, 1962. Others were generally quite small relative to credit union share accounts in each state. Ibid.

[21] Interview with Edgar L. Fontaine, Managing Director, Louisiana Credit Union League, New Orleans, August 7, 1963.

[22] Financial Statement, "Annual Meeting Reports," (New Orleans: Louisiana Credit Union League, 1963), p. 13a.

it is evident that the stabilization fund represents only token protection to members.

In Illinois and Massachusetts the state governments have moved toward protection of share accounts by establishing share insurance corporations. In both states membership in the program is open to credit unions which can pass an audit procedure but is optional to all. Premiums are paid for the insurance protection on the basis of amount of share accounts.

Under the Massachusetts Credit Union Share Insurance Corporation, members of participating credit unions are insured up to $6,000 for single accounts and $12,000 for joint accounts. Each group which affiliates with the corporation pays into the corporation one per cent of its share and deposit liabilities and each six months pays one per cent of any additional share and deposit liabilities accumulated. A semi-annual premium of one-twenty-fourth of one per cent of share and deposit liabilities is charged to member credit unions. The share insurance premium may be charged to the required guarantee fund, reserves, undivided earnings, or current expenses.[23]

The one per cent contribution is refundable only upon liquidation of the corporation and is not, in any case, withdrawable by the credit union. Thus, one per cent of the shares and deposits of participating groups is essentially "socialized" for the continuing protection of share and deposit accounts.

Member credit unions are allowed to reduce the required transfer to reserves (the guarantee fund) by two per cent if their reserves equal

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[23]"Share Protection in Massachusetts," The Credit Union Magazine, XXIX, No. 3 (March, 1964), p. 37.

at least seven per cent of assets. Non-member state credit unions in Massachusetts are required to add 10 per cent of gross profits to reserves. Since it is believed that the reduced addition to reserves will more than offset the one-twelfth of one per cent share insurance premium, the only cost of the insurance program should be the loss of income on the one per cent contribution.[24] Dividend rates should be unaffected by this small cost.

The Illinois share guaranty program, which is a private corporation operating under state charter, differs in detail but not in purpose or essential effects from the Massachusetts program which is organized as a public corporation. There are only two basic disadvantages of these state programs. First, the risks of loss probably should be spread over a wider area than one state in order to take the greatest advantage of the insurance principle. Credit unions within one state are likely to be subject to similar economic fortunes. Second, adoption of share insurance programs by each of the 50 states would involve unnecessary and costly duplication of facilities and personnel. The same protection and service could be acquired at lower per unit cost by a nationwide share insurance program.

Within the organized credit union movement establishment of a federal share insurance program has generally been opposed.[25] Reasons for opposition have been varied but points cited are the contention that adequate protection is already provided by prudent management, bonding

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[24] Ibid., pp. 37-38.

[25] "Share Insurance: Pro and Con," The Credit Union Bridge, XXVII, No. 12 (December, 1962), p. 12.

of employees and stabilization funds; the favorable historical record which shows that 75 per cent of the liquidated federal credit unions have paid 100 cents or more per dollar of shares and that losses per member of liquidated credit unions have been less than $11; the allegation that costs would be prohibitive or excessive considering the small risk of loss; and so on.[26] Croteau even reports the sentiment in CUNA that the only benefit offered by share insurance is, "'It would guarantee that credit union members would suffer no loss of their savings up to the insured limit, in case the credit union were liquidated because of mismanagement, poor investments, or economic conditions.'"[27]

The arguments favoring a federal share insurance program cite the inadequacy of most stabilization plans and their failure to provide universal coverage; the historical fact that one-third of all federal credit unions chartered have been liquidated; and the advantages of eliminating risk and uncertainty.[28] The logic of those favoring a national share insurance system, plus the superficial quality of arguments against coverage, have led to continued study by CUNA but not to a change in policy.

More recently, attention has been focused on the idea of a broad new institution called the National Federal Credit Union Fund, the purposes of which:

> would be providing an additional source of funds for credit unions; an aid in setting up an efficient, nationwide

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[26] Ibid., p. 10.

[27] John Tougas Croteau, The Federal Credit Union (New York: Harper and Brothers Publishers, 1956), p. 167.

[28] "Share Insurance: Pro and Con," op. cit., p. 10.

> system of interlending among credit unions; an aid in the orderly liquidation of credit unions; an aid in the rehabilitation and stabilization of credit unions; to help credit unions establish lines of credit with other financial institutions; and to improve the general welfare of credit unions.[29]

Membership in the "central fund" would be mandatory for federal credit unions but optional for state credit unions except where state laws require membership. Financing of the proposed fund would be accomplished through the required purchase by each member group of shares in the fund equal to one per cent of its members' shares plus creditor obligations. This amount would be refundable upon withdrawal from the fund. In addition to sale of shares to members, the proposed organization could secure funds through sale of its own obligations on the open market, direct borrowing from the U.S. Treasury and deposits in interest-bearing accounts by member credit unions.[30]

Government of the proposed fund would be under the direction of a board appointed by the President of the United States from a panel of nominees submitted by CUNA International.[31]

Although this central fund would not be tied to a federal share insurance program of any kind, its activities in coordinating existing stabilization programs and aiding in rehabilitation or orderly liquidation of distressed credit unions would seem to supplant the functions of an insurance program to some degree without providing guarantees. Other powers and responsibilities of the institution would

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29"A Central Fund," The Credit Union Magazine, XXXI, No. 4 (April, 1966), p. 38.

30Ibid., pp. 38-39.

31Ibid., p. 39.

be directed toward the need of credit unions for a lender of last resort, a source of low cost credit, and a depository for surplus funds.

In general, the need for most of the functions of the national fund is supported by the above discussions of the unique liquidity and solvency requirements of credit unions. However, the failure to clearly distinguish the lender of last resort function and provide for its accomplishment, and the absence of a direct and clearly defined guarantee of the solvency of individual member share accounts, reduces materially the advisability of establishing the central fund as presently conceived. Additionally, it seems highly unlikely that the Congress of the United States would allow the organized credit union movement, represented by CUNA International, to virtually control an institution which would become so vital to the operations of American credit unions.

While it is true that credit unions differ from other financial institutions in that they are not open to the general public, credit unions are widespread and they do hold a significant portion of the personal savings of the citizenry; consequently, they should be required to provide adequate safeguards of liquidity and solvency. Since the individual shareholder is not equipped to evaluate the risks associated with the credit union's operations, it becomes the responsibility of government to supervise the organizations formed to provide these safeguards. It seems inadvisable for government to delegate this authority to the trade association which represents the largest organized body of credit unions. In addition to the possibility of conflict of interest between the welfare of society and that of credit unions, the close control of a national fund by CUNA International might intimidate those groups which choose not to participate in the trade association.

In summary, the national federal credit union fund, as presently conceived, does not seem to be the proper vehicle for solution of the basic liquidity and solvency problems of credit unions, and may introduce serious problems of its own. Indeed, consideration of the national fund may serve to cloud the issues and forestall development of institutions better suited to the purpose.

3. Equity. It seems almost incongruous to introduce the question of equity in a discussion of credit unions. The literature of the credit union movement resounds with an almost religious air.[32] The desire to treat savers and borrowers equally has led to the use of patronage refunds in some credit unions. Matters of equity pervade attempts to establish interest rates on loans and so on.

There is one area of equitable treatment which until recently has received no attention, and has not yet been adequately explored. This is the matter of credit union reserve funds and equity among shareholders.

Both state and federal credit unions in Louisiana are required by law to set aside 20 per cent of net earnings before dividends as a reserve fund.[33] Additionally, special reserves must be set aside from

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[32]Examples are numerous but the four works cited in footnote 1, Chapter I should suffice.

[33]The term "reserve fund" is a misnomer since no fund is actually established. The term refers merely to the appropriation of a portion of earnings into a capital account separate from members' share accounts. Earnings so appropriated or retained are employed in the credit union to make loans to members or any other legal investment. Thus, "required reserves" for credit unions are an entirely different concept from the legal reserve requirements of commercial banks and certain other financial institutions. Credit union reserves serve only to "cushion" members' accounts from loss due to bad debts or other loss and provide neither liquidity (because of their special form) nor a control mechanism to regulate lending (as in the case of commercial banks).

earnings as reserves against delinquent loans. (See Chapter III.) Contributions to the basic reserve fund may be terminated by federal credit unions when the fund equals 10 per cent of paid-in shares and by state credit unions when the fund equals 15 per cent.

Ostensibly, the reserve fund serves as a protection to the shareholder in the event that the credit union suffers a loss on a loan or investment. However, viewing the reserve fund as a cushion, i.e., protecting the shareholders' equity, ignores the basic framework of the credit union. The credit union belongs to the shareholders--their share accounts can be protected only by dipping into their reserve funds. It should make little difference, then, whether the results of an uncollectable debt are charged against shares on a pro rata basis or against a reserve fund which belongs to the shareholders. (Admittedly, the latter method would be simpler in the bookkeeping sense.)

Both equity and accuracy of accounting procedure require that the occurrence of a bad debt should be recorded as nearly as possible in the period of its incidence. As a practical matter, then, this calls for establishment of a reserve for bad debts. Such a reserve should be based upon the historical experience of the credit union in collecting various types of obligations modified by knowledge about current operations, economic conditions, and so on. Under present statutes, however, the basic reserve funds are established without reference to experience and only the special reserves are associated in any way with specific current knowledge (and this is related only to delinquencies).

The question of equity among members arises because shares are purchased and redeemed at par value. The person who purchases shares in an existing credit union benefits from the "protection" provided by the reserve fund contributions of previous members. When shares are withdrawn, the reserve contribution made by the withdrawing member stays on to "protect" the shares of remaining members. To the extent, then, that allocations to the reserve fund exceed the bad debts arising out of current operations,[34] the present method of establishing reserve funds has discriminated against past members in favor of present members and discriminates against present members in favor of future members.

Croteau, after examining the problem of reserve funds and equity, concludes that present legal reserve requirements provide adequate protection against bad loans and cautions against accumulation of other reserves in "excess" amounts.[35] Far stronger recommendations would seem in order, however. Consider, for example, the case of a charter member of Federal Credit Union. He belongs during years when the reserve fund is built up to 10 per cent of paid-in shares. For each $5.00 share this member withdraws, he will "contribute" $.50 to owners of other shares. This $.50 will stay in the credit union to "protect" share values from bad loans; will be loaned out to earn more money for dividends or lower interest rates to remaining members; and, in the event of final liquidation, will be distributed on a pro rata basis to the last members of the organization.

Much greater equity could be obtained if allocations to reserve funds were based on the actual and anticipated performance of the

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[34] John T. Croteau, in a study of the operations of 131 large credit unions over the period, 1952-1956, discovered an average annual charge-off of less than 5.0 per cent of net earnings. "Credit Union Reserves," _The Economics of the Credit Union_, _op. cit._, p. 48.

[35] _Ibid._, p. 56.

individual credit union, rather than upon a blanket statutory requirement. However, the difficulty of projecting actual performance and the questions concerning disposition of present reserves makes reduction of the reserve requirement improbable. An alternative to reduction of present reserve requirements would be to charge a premium on new shares sold and pay a premium when shares are redeemed--the size of the premium based upon the size of the reserve fund at the time of the transaction. Thus, if the reserve fund were, say, 7.0 per cent of paid-in shares, the purchaser of new shares would pay a 7.0 per cent premium on his shares. The premium would be contributed to the reserve. If, because of contributions in excess of bad debts, the reserve fund should rise to, say, 8.0 per cent, then at withdrawal, the member would receive an 8.0 per cent premium for his shares. Since both shares and reserves would have declined proportionately, the reserve fund would remain at 8.0 per cent of shares after the transaction and the level of protection to remaining members would be unaltered. A quarterly or even annual recalculation of the rate of premium should be sufficient during normal times to yield a substantial improvement in the degree of equity among members.

IV. THE TAX-EXEMPT STATUS OF CREDIT UNIONS

From their beginning in this country, credit unions have been exempt from the income tax at both the state and federal levels. The basic reasons for this exemption seem to have been their mutual, self-help organizational structure and their similarity to other institutions which were themselves tax-exempt.[36] When corporate tax rates were low

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[36] See above, p. 77.

and credit unions quite small, the amount of benefit (i.e., subsidy) resulting from the tax-exemption was insignificant and its economic and social consequences were ignored. Higher tax rates and the increasing average size of membership groups may have substantially increased the benefits of tax-exemption today, however, and its justification must be reviewed.

Currently, the basic arguments favoring continuation of complete freedom from income taxation for credit unions fall into two categories. The first contention is that the activities of credit unions benefit society as well as members and they should be subsidized for their efforts. Second, it is argued that they are mere conduits for members' funds and that the institution has no earnings of its own and, consequently, no taxpaying ability separate and apart from that of its shareholder-members.

The social benefit principle is supported by John T. Croteau who contends that it was the intent of Congress, in passing the 1934 Federal Credit Union Act, to establish an institution which would both promote thrift and provide low-cost consumer credit. According to Croteau, the Congress so restricted credit union operations as to preclude any significant earnings and to make some form of subsidy virtually mandatory.[37]

Further, Croteau contends:

> In regard to the allocation of resources, the amounts held in credit unions are so small that they have virtually no impact in the field of savings. With consumer lending, however, credit unions probably

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[37]John T. Croteau, Statement before the Committee on Ways and Means, House of Representatives, Monday, December 14, 1959. Income Tax Revision, 86th Congress, First Session, November and December, 1959. (Washington, D.C.: U. S. Government Printing Office, 1959), p. 960.

> contribute to an improved allocation of resources through their competition with high-rate money lenders. Tax exemption here has a social, or welfare, advantage.[38]

Croteau's first point, that credit union laws so restrict the sources and uses of funds and the terms of their use as to make some form of subsidy essential, may be subject to proof (or disproof). His point that credit unions should be rewarded for their favorable effects on competition which benefit all members of society is not subject to proof but must be evaluated upon its logic. Croteau presents no evidence on the first point and none is available to this writer.

However, one would question whether the provision of competition to other lenders should entitle any organization to a subsidy--in any form. Certainly, if this is the case, it follows that virtually every business other than pure monopolies deserve compensation for their contribution to competition or rivalry in one or more markets. Croteau fails to make a case for the unique merit of the credit union or other mutuals in the consumer credit area.

The benefits of tax exemption are currently much greater than when credit unions first attained their favorable status and it would seem desirable to require justification of that favorable status if it is to be continued. Croteau fails to indicate any merit or need for the increased subsidy over the years.

In order to evaluate the contention that credit unions do not possess taxpaying ability because they function only as conduits for

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[38]Ibid., p. 961.

members' funds and have no function of their own, one must compare their organizational structure with that of other financial and non-financial institutions. There are many similarities between the shareholder-members of credit unions and the stockholders[39] of other institutions. At liquidation, both share and stock owners become the residual recipients of the proceeds of the firm. Prior to liquidation neither shareholders nor stockholders have a right to dividends unless declared or to any specific portion of the undivided profits or other non-apportioned capital accounts.

There are several points of distinction between credit union shareholders and the stockholders of other types of corporations. Shareholder-members have the right to demand redemption of their shares at face value while stockholders have no right to redemption but may sell their ownership rights at the going market price (which may differ widely from cost). The shareowner, then, receives greater liquidity of his funds than does the stockholder and is insulated from possible decline in market value (except in the event of economic disaster to the unit); however, he gains no benefit from any improvements in profitability and wealth of the institution since there is no possible appreciation of the value of his shares. Thus, the shareholder must retain his membership

[39]There is no distinction in the literature of economics and finance between the term "shareholder" and the term "stockholder." However, for convenience in this section the term shareholder will be reserved for the supplier of capital to the credit union or other mutual institution, while suppliers of capital to non-mutual organizations will be referred to as stockholders.

and must not withdraw his funds if he is to benefit from profits retained by the institution.[40] The stockholder may gain from such retained earnings if they increase the profitability of the firm as they are capitalized in the value of his holdings.

Since it is more fruitful to examine the economic nature of a firm as a going concern, rather than at liquidation, the differences between shareholders and stockholders may be more important than their similarities. The shareholder in a credit union may properly be regarded as a depositor in that institution with the right to withdraw a constant dollar amount upon demand--at least while the union is a going concern. Although dividends are not guaranteed to the shareowner, a history of dividend payment may come to be taken as more or less assurance of the intent to continue payments, and, as a going concern the institution is likely to continue to pay about the same rate. Thus, members' share accounts should be treated as deposit accounts for tax purposes.[41]

Viewing the institution at liquidation and with regard to capital accounts other than shares, members are in the same legal and economic position as stockholders in other firms. Liquidation of a firm rarely gives rise to income tax liability; therefore, attention here

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[40]The inequity of this treatment is discussed above, pp. 119-122.

[41]Some sources insist upon defining the shareholders of mutuals as the "owners," a proposition which cannot be denied. However, their tax recommendations would allow for deduction of the "interest" portion of earnings distributions before assessment of taxation against the institution. Thus, the "owners'" dividends become interest cost to the firm. The result is essentially the same as that suggested below where shareholders are treated as depositors. Cf. Clifton H. Kreps, Jr. and David T. Lapkin, "Public Regulation and Operating Conventions Affecting Sources of Funds of Commercial Banks and Thrift Institutions," The Journal of Finance, XVII, No. 2 (May, 1962), pp. 298-300; and Edward W. Reed, "Federal Taxation of Deposit-Type Financial Institutions," The Quarterly Review of Economics and Business, I, No. 4 (November, 1961), pp. 71-73.

is directed to non-share capital accounts. In a credit union, the non-apportioned capital accounts are composed of the required reserve or "reserve fund,"[42] the special reserve for bad loans,[43] and undistributed (retained) earnings. A part of the reserve fund and the special reserve for bad loans are really valuation accounts and could properly be shown as adjustments to asset accounts rather than as capital accounts. The remainder of the reserve fund and any undivided profit accounts represent earnings of the institution which are available for profitable employment by the union, but which have escaped taxation at either the personal or business level.

The rationale for establishing capital reserve accounts in credit unions (and other mutuals) stems from the basic difference between mutual (share) and stock corporations. The depositors and creditors of stock-type firms receive protection of their interests through the prudent management of the firm's assets and through the equity cushion provided by the stockholder-owners of the organization. The shareholders of mutuals, however, are the owners, and consequently have no protection of their accounts beyond the assets of the institution. The reserve fund was thought to provide a cushion for the protection of share accounts against any form of economic disaster.[44] It is questionable, however, whether the need for a protective cushion for members' share accounts

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[42]See footnote 33, p. 119.

[43]See above, p. 77.

[44]The folly of this reasoning process and the attendant inequity among members introduced by the reserve fund are discussed above, pp. 119-122.

in the absence of other stockholders should entitle any organization to accumulate that cushion tax-free.

Having determined that earnings retained in order to build up the non-share capital accounts should be taxed, the question as to the proper point of levy arises. Since the funds are supposedly retained for the benefit of the members (to protect their share accounts from erosion in the event of abnormal losses), it would seem proper to charge the tax to members according to the size of their share accounts. However, taxation of shareholders introduces some minor problems of accounting practicality and some more serious problems of equity. The accounting problems of apportionment and reporting could be overcome; however, the equity of taxing a person for income which he does not receive and over which he gains no economic power seems both inequitable and undesirable. For the member of a dividend-paying unit, the effect would be to raise the rate of personal taxation on dividends actually received. To the member of a unit with no dividend, the result is to tax a person for having made a deposit which paid no return. It would be better for an individual to hold idle cash than to deposit funds in a credit union which paid no dividend.

Since it seems impractical to tax shareholder-depositors for earnings allocated to capital reserves, the alternative would be to tax the institution.[45] After concluding that the retained income (including

[45]While the taxation of income at the corporate level is widely criticized, the tax seems to be an integral part of the United States tax structure. See E. Gordon Keith, "The Impact of Federal Taxation on the Flow of Personal Savings through Investment Intermediaries," Private Financial Institutions, a series of research studies prepared for the Commission on Money and Credit (Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1963), pp. 427-440. Cf. Dan Throop Smith, Federal Tax Reform

additions to required reserve funds) should be taxed at the corporate level, Keith contends that, since the funds are retained in the interest of individual account holders, the tax rate applicable should be the personal rather than the corporate rate. Where amounts retained exceed those necessary for prudent cushioning of share accounts, Keith would then apply full corporate income tax rates.[46]

Such a distinction does not seem justified, however, because of the relationship of the member to retained funds and because of the benefits of the retained funds to the institution itself. Any claim which the individual member may have against funds retained "in his behalf" are extremely unpredictable. Further, the funds may be said to protect the institution's ability to meet its obligations to members to the same extent as members are protected from failure of the institution. Thus, amounts retained from earnings and added to the non-allocated capital accounts increase the well-being of the institution, *i.e.*, they are the firm's income. Consequently, the institution should pay the tax itself, and there is little reason for charging a lower rate here than to other corporations. Arguing that the institution has no taxpaying ability and that the burden of the tax must be borne either by its customers (borrowers) or its shareholder-members begs the question since this is true of all corporations.

(New York: McGraw-Hill Book Company, Inc., 1961), pp. 188-218; and Richard A. Musgrave, *The Theory of Public Finance* (New York: McGraw-Hill Book Company, Inc., 1959), pp. 173-175.

[46]E. Gordon Keith, "The Impact of Federal Taxation on the Flow of Personal Savings through Investment Intermediaries," *op. cit.*, pp. 443 and 455-456.

Another area of credit union activity raises some question regarding the income tax. Frequently membership groups provide special services for shareholders such as free life insurance. The member receives a smaller dividend than otherwise but pays no income tax on the insurance premium paid in his behalf. Since the credit union is tax-exempt, no question arises as to the deductibility of premium payments for corporate tax purposes; and the amount, often equal to 10 per cent or more of dividend payments, escapes taxation entirely. Since the member receives direct benefit from insurance premiums paid in his behalf, the amounts paid should be included in the taxable income of members.

Since it is impossible to predict the time when the income tax exemption will be removed from credit unions or what form taxation may take, it is difficult to estimate the probable impact upon future expansion of the movement. However, it is possible to indicate the probable burden of the corporate income tax if applied to additions to capital reserves as suggested above.

If the institutions had been assessed taxes against retained earnings, only two or three of the largest credit unions in Louisiana during 1962 had earnings large enough to have paid more than the then existing normal tax rate of 30 per cent.[47] Assuming, for simplicity, that an institution retained only the 20 per cent of earnings required by law and that none of this retention was needed as a reserve against bad loans, the tax of 30 per cent of retained profits would be but six

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[47]In 1967, the normal rate was 22 per cent.

per cent of total earnings.[48] Even if the entire tax cost were borne out of dividends, dividend rates would be cut only 7.5 per cent.

Thus, equity requires that credit unions bear the same type of tax burdens as other similarly situated business firms. Yet, because of their nature, the actual amount of taxable earnings would be quite small and the effects on over-all operations and growth should be small.

V. SOME PROBLEMS, PROSPECTS, AND IMPLICATIONS FOR FUTURE GROWTH OF CREDIT UNIONS IN LOUISIANA

It has been contended in this thesis that credit unions in Louisiana, as presently organized, have provided a useful service to members as a medium for savings and source of loans, and that society has benefited from the credit unions' contributions as a financial intermediary and competitor. The sheer size and speed of development bear evidence of the usefulness of credit unions to their membership, and the actions of rival savings and lending media demonstrate their competitive influence.

At the same time this study has revealed some severe weaknesses in the credit union structure as it is presently organized. The primary weakness is the inability of the individual unit (or perhaps even all units together) to solve the pressing problems of liquidity and solvency during periods of stress, while continuing to carry out the normal functions of the institution. When the weaknesses of illiquidity

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[48] Presumably, any part of the retention necessary to cover possible bad loans would be deductible for tax purposes; consequently the taxable portion would be reduced. Any excessive retention of earnings over the required 20 per cent would increase the tax burden.

and insolvency come to the fore, the existence of the credit union is threatened; its value to both saving and borrowing members is reduced. Society is harmed by loss of the credit union's competitive influence and by the introduction of instability into the financial system.

The basic weaknesses in the credit union framework could be overcome by establishment of a discount facility for credit union paper (i.e., a lender of last resort) and a system of share insurance. If the credit union framework were strengthened in this manner, its existence and operations would be stabilized, making the credit union a more valuable and stable member of the economy of Louisiana. Even so, the level of credit union activity would tend to be limited. This limitation would occur because of the restricted role of the credit union and because, with a limited field of membership and strict legislative control upon lending activities and terms, the interrelationship between the savings and lending activities of the credit union tends to inhibit growth whenever competitive pressures increase. Other financial institutions, particularly commercial banks and savings and loan associations, also have limits placed on their activities but have far greater freedom than credit unions in attracting loanable funds from various sectors of the economy and in selection of investment securities and media.

Although the active role of credit unions in the savings and lending markets of Louisiana is quite limited, the competitive influence of credit unions may be of more significance. Existing credit unions exert competitive influence upon rivals in two ways. First, credit unions compete (at least among their members) for savings and lending business. Second, to non-members and to the public at large, operating credit unions serve as an example of the rate of return on savings and the terms on loans which can be secured through the credit union form of organization. Thus, the actual rivalry of existing credit unions plus the potential of expansion may make credit unions an important regulator of the activities of alternative financial institutions.

The potential growth of credit unions in Louisiana depends upon a number of important factors. The ability of credit unions to overcome the fundamental institutional weaknesses contributing to instability will significantly affect growth prospects. The absence of a source of ultimate liquidity and of share guarantees can be expected to hamper growth increasingly as credit unions become larger and more widely known. If credit unions and their members do not initiate action to secure protection against illiquidity and insolvency, society will either move to restrict credit unions or to establish means of protection. Until such protection is provided, members can be expected to use the credit union less than they would otherwise prefer; thus, growth will be hampered to some extent.

Another important influence upon credit union expansion will be the attitude of regulatory authorities toward the credit union form of financial institution. In Chapter II the credit union was viewed as the manifestation of the desire on the part of households to improve their relative competitive positions in the financial markets. In Chapter III it was shown that society has fostered the development of credit unions to the extent of providing a special legal framework and tax status for such institutions. In exchange, society has closely confined the activities of credit unions. It has been argued in Chapter IV that credit unions may exert a competitive influence upon rivals which benefits society as well as members. If the regulatory authorities should decide to more fully exploit the competitive capabilities of credit unions, the growth of credit unions might be significantly accelerated. Growth could occur especially in small communities where the financial markets are poorly developed and in which there is little competition.

Future development of credit unions will also depend upon the ability of rivals to compete for savings and loan business. Among the competitive factors which may become increasingly important for Louisiana credit unions are: (1) rising interest rates on savings; (2) in-plant banking; and (3) consumer loans by savings and loan (homestead) associations. Utilization of credit unions by members depends upon the ability of credit unions to offer a more attractive "package" of services to savers and borrowers. As rival institutions adjust to the competitive influence of credit unions, a high growth rate will become more difficult for credit unions to maintain.

Finally, given the institutional structure of credit unions, the attitude of regulatory authorities and the competitive influence of rivals, the potential growth rate of credit unions will be circumscribed by the general pattern of development in the Louisiana economy. A sustained period of stable growth with continued industrialization and urbanization can be expected, other things equal, to stimulate credit union activity. Conversely, unstable, halting growth would produce a poor environment for credit union growth.

CHAPTER V

SUMMARY AND CONCLUSIONS

The credit union is a mutual financial institution designed to pool the savings of households and extend loans to members at reasonable rates for provident and productive purposes. The growth of credit unions in the United States since their inception in 1909 has proceeded without interruption except during World War II. However, by December 31, 1962, credit unions held only 2.4 per cent of the institutionalized personal savings in the United States and but 10.0 per cent of all consumer installment credit outstanding. The typical credit union remained a relatively small financial institution operated on the principle of self-help.

While credit unions did not begin their development in Louisiana until 1924, the pattern of growth recorded in Louisiana has closely paralleled national credit union development. By December 31, 1962, almost one in 16 Louisiana residents held membership in one of the 413 operating credit unions. Although there had been substantial credit union development, in 1962, only 39 of the 64 parishes had credit union activity.

While all credit unions established under state or federal jurisdiction have essentially the same powers and functions, a wide variety of credit unions have developed in Louisiana. On December 31, 1962, the 413 operating credit unions in Louisiana held total assets ranging from $39 to $2,952,562. Eighty-four per cent of Louisiana credit unions were based on the common bond of employment while only thirteen per cent were based on association and four per cent on residence.

Profitability of Louisiana credit unions, to the extent it is measured by dividend rates paid, varied widely with 16 units paying no dividend in 1962 and two paying 8.0 per cent. Over two-thirds (69.9 per cent) paid dividend rates of 4.0 to 5.9 per cent.

This chapter contains a restatement of the economic nature and role of the credit union; a summary of the inadequacies and structural faults in the present credit union system; and a list of proposals designed to improve and strengthen the credit union framework.

I. THE CREDIT UNION AS AN ECONOMIC ENTITY

The need for a mutual, self-help association in the market for the savings of low- and middle-income households and a source of credit at reasonable rates and on convenient terms arises because of the inferior position of the individual household in the financial markets. The markets for both savings and installment credit tend to be local and, consequently, tend to be noncompetitive in many cases.

Unable to secure either satisfactory outlets for savings or acceptable credit conditions, households are forced to accept undesirable terms or go without service entirely. The only alternative to bad terms or no terms would be direct lending by savers to those desiring loans. A host of problems are apparent here, however. It is not convenient for savers to deal directly with borrowers nor is it convenient for borrowers who wish more funds than a single lender can offer to deal with several lenders. Direct lending to one or two debtors would involve more risk than the individual saver is willing or able to bear. Furthermore, once loaned, the principal cannot be recovered until the loan matures; consequently, direct lending renders savings illiquid. The great inconvenience and risk to individuals usually means that direct lending will be kept to a minimum.

The banding together of households into an association for the pooling of savings and the extension of loans largely overcomes the practical problem presented by direct lending. Pooling of savings spreads the risk of loss on a few loans over a large number of savers to minimize the personal disaster or loss. The problems of dealing with borrowers are turned over to the managers of the fund who can presumably work out more efficient procedures for credit investigation and collection than could the individual. Convenience is gained for the borrower in that he needs to deal with only one lender rather than several. Finally, staggering of loan maturities, the continual inflow of savings and maintenance of a cash fund means that the saver can withdraw his funds with little or no delay--the saver gains liquidity of his assets.

The credit union involves, then, the banding together of households seeking to improve their competitive position in the savings and loan markets. From the outset credit unions have been organized among persons (households) having some common bond of association other than membership in the credit union. The common bond of employment, membership in a church or fraternal order, or residence in a community has no relationship to the household's desire for an alternative outlet for savings or source of credit on better terms than offered in the market. However, the mutual, self-help nature of the credit union requiring a substantial portion of voluntary labor to keep terms attractive and a high degree of trust in order to secure loanable funds may demand group-consciousness. In any case, both state and federal credit union laws require that membership be based upon some common bond of association other than membership in the credit union.

Because credit unions are often managed by persons who are not trained or experienced in the field of finance, state and federal credit union laws seek to establish safeguards for members' savings by carefully limiting the types of investment securities which credit unions may own; the depositories for what would otherwise be idle funds; and the amount, security, and terms of loans to any one borrower. Manuals are also available to aid the credit, investment, and supervisory committees and all others responsible for day-to-day operation of the credit union. Examiners work closely with credit union management to correct improper procedures, and the field representatives of the Louisiana Credit Union League are available to assist member credit unions with any matter concerning procedure or policy. Bonding of all employees and officers handling money or securities is now standard procedure and most credit unions carry blanket insurance policies and provide credit life insurance on unpaid loan balances. Despite all safeguards, a credit union's management occasionally fails to make an adequate credit investigation and the credit union suffers an avoidable loss.

Although the credit union overcomes many of the problems associated with direct lending by savers to borrowers, the basic conflict between lender and borrower remains. The credit union is a mutual association with all members (savers and borrowers) sharing voting power and decision-making responsibility on a one-man one-vote basis. But savers (lenders) desire liquidity and high rates of return with substantial security backing each loan, while borrowers desire easy terms and low interest rates on loans with minimal security. A compromise must be reached which will provide terms satisfactory to all--terms at least as attractive as those obtainable outside the credit union and perhaps better.

To the extent that the credit union form offers an attractive package to savers and borrowers, existing credit unions can be expected to grow as their membership groups grow and become more wealthy, and new credit unions can be expected to be formed among those groups not previously served. Should the package offered by the credit union cease to be as attractive to members as that offered by alternative savings outlets or alternative credit sources, then the credit union's growth will be hampered and credit unions may decline in both numbers and size. The decline in the relative attractiveness of credit union terms to savers or lenders could arise either because of a decline in the efficiency of the credit union or because of improvement in the packages offered to households by the financial markets.

A decline in the efficiency of a credit union could occur because of establishment of high-cost procedures, high loss rates on loans or poor administration of funds, or could occur if regulatory authorities made unusual demands upon management. Symptoms similar to inefficient operation could appear if the credit union became dominated by the interests of either savers or borrowers. In any of the above cases, however, the symptoms should lead to correction of the condition since the basic needs of the households remain.

Should the package offered by the credit union become less attractive because of improvements in the desirability of alternative savings depositories or lenders, then the credit union may be unable to cope with the condition and may face stagnation or even be disbanded. In this case, the success of the credit union must be measured by its service while operating and by its stimulation of other financial institutions to improve their offerings to savers and borrowers. The demise of the credit union, because it is no longer needed, may indicate that it has attained the ultimate success of any mutual, self-help enterprise.

The income tax exemption of credit unions and other mutual associations was begun when personal and corporate income tax rates were low. The tax loss to the government was small both because rates were low and because the earnings of credit unions were small. The small loss of revenue was regarded as a subsidy to the operation of small, self-help associations which promote thrift among low- and middle-income groups and assist families in those same classes to avoid the grips of loan sharks.

Improvements in small loan and usury laws, increasing competition in the savings and loan markets and increasing affluence among credit unions make continuation of the tax exemption more difficult to justify, especially in view of present tax rates. Rising pressures for broadening the tax base and equalizing the tax burden may soon lead to elimination of this subsidy to credit union operations.

The role of credit unions in the financial markets is that of intermediary between those households in the membership group which, during any given time period, desire to consume less than current income and those households which, during the same time, wish to borrow in order to spend more than current income. As a financial intermediary, the credit union offers savers shares which are redeemable on demand and uses the funds accumulated through sale of shares to extend installment loans. Because members may desire redemption of their shares at any time and because the major assets of the credit union are not readily convertible into money, the credit union has the day-to-day problem of maintaining an adequate degree of liquidity.

The related but separate problem of maintaining solvency is shared by credit unions and other financial intermediaries. The credit union must safeguard assets in order to satisfy obligations to creditors and shareholders.

Although the needs for liquidity and solvency in credit unions are similar to the liquidity and solvency needs of other financial institutions, there are several imperfections in the structure of credit unions which distinguish their problems from those of other financial intermediaries. First, the matching of the desires of savers and borrowers within any one time period may be very difficult for a credit union. If savers with to accumulate more funds than borrowers wish to use during a period, the credit union is faced with excess liquidity and limited opportunities for profitable employment of a substantial portion of its funds. At other times large withdrawal demands, defaults on loan payments, and requests for new loans may cause severe liquidity and even solvency problems for the credit union which may result in interruption of normal services.

The probability of periods of excess liquidity or insufficient liquidity are greater in credit unions than most other financial intermediaries because the limited field of membership means that all members, savers, and borrowers face similar economic conditions at the same time. Economic fluctuations, strikes, plant expansion, or closings are likely to affect all members at the same time, consequently magnifying the problems of intermediary finance. Compounding the problems created by the limited field of membership are close legal restrictions on the investment outlets for surplus funds and the absence of a good secondary market for members' notes. Thus, the present structure of the credit union is such as to create surpluses of funds at times without providing for their profitable employment and shortages of liquid funds at other times with no provision for relief.

A second imperfection which distinguishes credit union problems from those of other financial intermediaries is the absence of some source of ultimate liquidity, a lender of last resort designed to assist credit unions through liquidity crises. This shortcoming increases the likelihood that illiquidity may be a problem and lowers the social and economic desirability of the credit union as a financial intermediary.

Third, failure to provide for spreading of the loss resulting from failure or insolvency of a credit union through insurance of share accounts increases the riskiness of the credit union as an outlet for household savings. Since the possibilities of inconvenience and material loss resulting from illiquidity or insolvency are difficult to estimate, these probabilities are likely to be discounted at a relatively high rate which, to the extent households are aware of the risks, will discourage utilization of credit union facilities. To the extent that households are unaware of the risks involved in utilization of credit union shares as savings depositories, this ignorance results in inconvenience and financial loss.

A fourth imperfection in the structure of the credit union which is perhaps shared by the other mutuals, e.g., savings and loan associations and mutual savings banks, is the inequitable provision of a "reserve" cushion for shares which cannot be withdrawn by a shareholder leaving the membership prior to dissolution. An alternative to the present system was suggested in Chapter IV and another alternative is considered below.

The fifth imperfection, the absence of professional leadership, is more characteristic of small than large unions and is probably impossible to solve entirely considering the mutual, self-help nature of the credit union.

II. SUGGESTIONS FOR IMPROVING THE FRAMEWORK OF CREDIT UNIONS

The major problems and weaknesses of the present framework of credit unions stem from their economic role and are compounded by the limited field of membership in each unit and management by non-professionals. The problems of providing liquidity and maintaining solvency could probably be eased somewhat by removing the limitations on field of membership, eliminating credit unions too small to support professional management, and broadening the credit union's authority to select assets.

However, removal of the limited field of membership provision in credit unions would raise their costs of operation through loss of volunteer services, more expensive credit investigations, and, for many groups, loss of free space and other facilities provided by employers. In addition to raising costs, removal of the limited field of membership feature in credit unions would probably reduce the level of customer loyalty and confidence presently enjoyed and perhaps sharpen the lines of conflict between savers and borrowers within the membership.

On balance, removing the limitations on membership would probably weaken the credit union movement as a competitive force in the financial markets and might deprive some households of their services. An alternative approach would be to strengthen the credit union structure within the limitations and restrictions imposed by the common bond of association presently required as a prerequisite for membership. Some of the following proposals for improving the framework of credit unions could be adopted by the credit unions themselves or by the regulatory authorities without the necessity of legislative action. Other proposals would require some extensive additions to present legal statutes dealing with credit union operations. However, none of the suggested modifications would alter the basic structure and function of the credit union as a mutual, self-help financial institution.

To deal with the related problems of liquidity and solvency and to ensure equity for all members of the credit union:

1. Each credit union should be required to maintain a certain minimum level of liquid assets to be used to meet unusual withdrawal requests. The purpose of such a requirement would be to enhance the liquidity position of the institution and thereby ensure the liquidity of members' share accounts. The liquid asset requirement could be met by either maintenance of cash deposits, ownership of short-term marketable securities, or a firm line of credit from one or more commercial banks.

2. Each credit union should establish a plan of action to be employed in the event of unfortunate economic developments--strikes, plant closing, natural disaster, war, or any other more or less unpredictable event. The plan would have a multiple function. First, establishment of the plan would require those concerned with management of the credit union to study their responsibilities and the functional characteristics of the credit union in depth; thus, the plan would be educational.

Second, planning should make an emergency easier to deal with should it occur. Both the management and membership should know the plans for processing withdrawal requests and collection of existing loans and should know the policy on extension of new loans in the event of an economic upheaval affecting a large proportion of the membership. The plan would take into account any seasonal variations in cash flow and the normal intra-month flow of savings, withdrawals, loans, and repayments. The plan should be revised and updated periodically to keep it current and useable.

3. Close supervision of assets should be maintained in order to assure that assets will maintain their value in all but the worst economic developments.

4. Provision should be made for discounting of members' loans in the event of a severe liquidity crisis. The provision of a national discount facility would increase the liquidity of credit union assets and, consequently, ensure the liquidity of members' share accounts even during times of abnormal withdrawal requests. Increased liquidity of share accounts would enhance the value of credit union membership and would partially mitigate against the rapid spread to the community of the effects of a strike, lay off, or other temporary conditions adversely affecting members' incomes. Spending by members could be sustained by withdrawing funds from share accounts.

Membership in the national central credit facility should be required of federally-chartered credit unions, and provisions should be made whereby state legislatures could require membership by state-chartered units as well. In other cases, where state laws permit, membership by state credit unions meeting essentially the same qualifications as to the nature of their operations as do federal credit unions could be made optional.

Capitalization of the discount facility could be readily accomplished by subscriptions of capital stock by member credit unions at a rate based upon the size of the member credit union. The amount of capital needed to provide for establishment of a discount facility should not be large since its primary function would be as intermediary between member credit unions (as borrowers) and the financial markets and monetary authority (as lenders). The safety of the discount facility's obligations would depend upon its acceptance of good paper exclusively.

The discount facility should acquire the major portion of its funds from the money markets through issue of its own short-term interest-bearing securities. Additionally, in the event of a severe liquidity crisis, the discount facility should have discount privileges at the Federal Reserve Banks--the source of ultimate liquidity.

A statement of policy would indicate the conditions under which the credit union could apply for discounting of notes, the rates and terms of such discounts, the maximum proportion of its assets which each credit union could discount, and would establish the rules for extension of new loans and refinancing of outstanding loans during the period of indebtedness to the discount facility.

Operating costs of the discount facility would be met through charging a rate for loans to credit unions in excess of the cost of funds to the discount facility. The credit union using the discount facility could be expected to be under more or less constant supervision to assure safety of funds entrusted to it and compliance with the rules concerning new lending and so on.

A second function which could be assigned to the discount facility would be brokerage between credit unions with surplus funds available for lending and credit unions with excess loan demands. While service as broker for interlending between credit unions has nothing specifically to do with provision of liquidity for members' accounts, brokerage would assist in mitigating the difficulty experienced by many credit unions of matching savings with loan demand within any one time period and would, through brokerage fees, provide an added source of revenue to the discount facility to meet operating costs.

5. Facilities should be established for the insurance of members' share accounts from loss due to insolvency of the credit union. The purpose would be to guarantee the full dollar value of members' share accounts against any development which would otherwise result in loss to members through a scaledown of shares or liquidation of the credit union. The cost of a share insurance program would be borne by premiums paid by participating credit unions on the basis of the amount of share accounts held.

The degree of risk to shareholders will vary according to the age and size of the credit union, the stability of the membership group, the industry in which it is located, and general economic conditions. Consequently, the actuarial problems of establishing a share insurance program are great. Nevertheless, the absence of an adequate guarantee program increases the risk of loss for the individual member.

Except for administrative costs, the economic cost of a share insurance program would be exactly the same as the amount of loss now suffered when credit unions are forced to scale down members' shares or liquidate without returning full dollar value on share accounts. The losses due to defaults on loans, defalcations, and other adverse conditions should be approximately the same amount for the entire economy whether or not there is a share guarantee program, assuming that the existence of share insurance would not reduce the frequency of loss. However, the costs would be spread over the membership of all insured credit unions rather than being borne by a few people whose credit unions become insolvent.

The share insurance system should be nationwide in scope, and membership by federal credit unions should be required. State-chartered groups should be made eligible for membership upon application if they meet minimum standards as to the quality of their assets, the maturity structure of loans outstanding, and so on. State legislatures should consider requiring membership by state-chartered groups.

Capitalization of the share insurance system could be accomplished through subscription by participating credit unions. A part of the subscription could be actually paid by the credit unions with the remainder subject to call in the event of losses early in the program. Only credit unions meeting certain minimum requirements with regard to the quantity and quality of their assets should be admitted to the system since admission of an insolvent credit union to membership would violate the insurance principle.

The purposes of the share insurance program and the present system of establishing required reserves are identical--to cushion individual share accounts against loss due to a decline in the value of the credit union's assets. Consequently, established credit unions might be permitted to pay their subscriptions to the share insurance system out of reserves if reserve accounts exceed amounts prudently deemed necessary as protection against default of loans presently on the books of the credit union. Further, since the share insurance system would remove the need for an equity "cushion" between assets and members' shares, the payment of insurance premiums could be credited against the mandatory additions to reserves when these additions would exceed the necessary accumulation for bad debts.[1]

Should the above method of financing be adopted, neither dividend rates nor the services of the credit union should be affected. The advantages of a share insurance program over the present reserve system and over the stabilization fund of the Louisiana Credit Union League[2] would be the speed of settlement in the event of liquidation, the minimization of individual risk through use of insurance, and the guarantee of a contractual obligation to assist a credit union undergoing difficulty.

6. The degree of equity associated with the establishment of reserve funds needs to be improved. One way of achieving equity within the present reserve system is outlined on pages 121-122, above, and will not be repeated here. Should an adequate program for guarantee of share accounts be adopted, the case for retention of present reserve requirements would be substantially weakened. The source of inequity is the required addition of a fixed percentage of profits to reserves without regard to the amount of reserves needed to protect against potential bad debts. The reserve fund is not withdrawable, so any member who withdraws shares prior to liquidation of the credit union loses the amount withheld from dividends in his behalf. Adoption of a share insurance program should remove the case for excessive reserve accumulation, thereby removing the source of inequity.

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[1]This latter treatment is similar to the treatment afforded to credit unions which are members of the Massachusetts Credit Union Share Insurance Corporation. See pp. 114-115 above.

[2]See pp. 113-114 above.

With its weaknesses removed the credit union form could become a more viable force in the localized markets for savings and consumer loans.

III. SOME EXTENSIONS

This study has yielded some insights into the growth and development of credit unions and their role in the economy of Louisiana. Although they are organized as mutual self-help institutions and managerial talent is offered on a voluntary basis, credit unions are financial institutions and should be viewed as such both legally and economically. Thus, they should be held fully accountable for the safety and liquidity of funds entrusted to them and for equitable treatment of members. Socially, credit unions should be placed on a par with other financial intermediaries with regard to taxation.

Credit unions are, at times, able to offer terms to savers and borrowers which are more attractive than the terms offered by alternative financial institutions. Indeed, this is what makes the credit union attractive to households. Because of their better terms, credit unions exert competitive pressure upon other financial institutions and may cause them to improve their terms. The State Banking Department should consider fostering the establishment of credit unions in those areas of the state where competition among existing financial institutions is slight, especially in small towns and rural communities where multiplication of other financial institutions is not economically feasible.

A number of shortcomings in the collection and reporting of statistical data on credit union conditions and operations are apparent to one who has sought data for analysis of credit union activities. Both state and federal credit unions should be required to publish periodic statements of condition and statements of operations in a newspaper or state journal. This would assure the availability of both current and historical data to members, the public in general, and the researcher. As a minimum alternative to the above recommendation, financial reports for each membership group should be filed with the depositories for state documents for permanent retention.

Careful records, perhaps in diary form, should be maintained for each credit union placed in liquidation or for each credit union undergoing a scaledown of share accounts. The records should contain copies of the charter and bylaws, annual progress reports, reasons for liquidation (or scaledown), and progress of the liquidation until final close of the books. Such information would be invaluable in projects designed to trace the life cycle of a credit union; in determination of factors fostering and retarding credit union development; in designing and determining the probable cost of a discount facility and a share insurance institution.

Further studies are needed into the sources and uses of credit union funds other than members' share and loan accounts, into the make-up of savers and borrowers, and into the use of funds borrowed from credit unions. Such studies would shed more light on the economic and social contributions of credit unions and might yield insights into their liquidity and solvency problems.

Cooperation of federal and state regulatory authorities in gathering and reporting statistical data concerning credit unions would facilitate the study of their activities and performance and might lead to improvement in legislation or supervision should performance results justify such changes.

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APPENDIX A

TABLE XXII

SELECTED DATA ON OPERATIONS OF CREDIT UNIONS IN THE UNITED STATES--DECEMBER 31, 1962

STATE	YEAR LAW ENACTED	NUMBER	TOTAL MEMBERS	PER CENT OF POPULATION	TOTAL ASSETS (1,000's of $)	PER CAPITA ASSETS
Alabama	1927	304	198,247	5.9	$ 107,865	$ 32.12
Alaska	None	30	26,623	10.8	10,554	42.90
Arizona	1929	138	107,069	7.1	54,294	35.98
Arkansas	1931	134	49,309	2.7	18,157	9.96
California	1927	1,659	1,584,941	9.3	908,167	53.52
Colorado	1931	313	211,228	11.1	122,685	64.33
Connecticut	1939	471	297,233	11.4	169,372	65.22
Delaware	None	41	25,035	5.3	9,516	20.29
Florida	1929	569	390,911	7.2	179,138	32.82
Georgia	1925	354	214,693	5.2	97,305	23.73
Hawaii	None	172	125,362	18.1	91,203	131.61
Idaho	1935	155	47,296	6.8	20,522	29.40
Illinois	1925	1,761	945,297	9.3	502,350	49.51
Indiana	1923	503	320,928	6.8	178,037	37.76
Iowa	1925	371	166,001	6.0	93,937	33.83
Kansas	1929	306	162,430	7.3	86,946	39.18
Kentucky	1922	214	103,375	3.4	43,661	14.17
Louisiana	1924	413	199,724	6.0	92,270	27.71
Maine	1939	142	84,227	8.4	40,390	40.43
Maryland	1929	188	174,400	5.5	67,215	21.06
Massachusetts	1909	744	592,586	11.5	303,227	58.75
Michigan	1925	1,191	1,034,240	12.9	621,733	77.80
Minnesota	1925	485	285,840	8.2	196,993	56.69
Mississippi	1924	142	66,595	3.0	26,804	11.92
Missouri	1927	620	347,640	8.0	173,355	39.89
Montana	1929	134	51,085	7.2	22,008	31.04
Nebraska	1919	167	95,802	6.5	49,485	33.35
Nevada	None	59	34,903	10.4	17,790	53.10
New Hampshire	1921	62	43,031	6.8	19,948	31.56

New Jersey	1924	530	303,389	4.9	135,947	21.77
New Mexico	1945	108	68,613	6.7	36,277	35.57
New York	1913	1,071	719,533	4.1	328,870	18.90
North Carolina	1915	262	150,740	3.2	53,660	11.34
North Dakota	1935	122	40,086	6.2	19,130	29.80
Ohio	1931	1,217	748,795	7.4	382,280	37.86
Oklahoma	1933	160	130,982	5.4	73,188	29.90
Oregon	1915	233	138,332	7.4	78,768	42.26
Pennsylvania	1933	1,178	665,281	5.8	287,254	25.25
Rhode Island	1914	128	130,747	15.1	90,314	104.41
South Carolina	1915	119	85,124	3.5	26,316	10.80
South Dakota	None	97	35,093	4.9	16,202	22.47
Tennessee	1923	400	223,252	6.1	131,641	36.22
Texas	1913	1,219	793,057	7.8	416,453	41.17
Utah	1915	273	126,791	13.1	79,247	81.95
Vermont	1941	67	21,892	5.6	7,805	20.01
Virginia	1921	267	180,551	4.3	79,439	19.02
Washington	1933	328	297,383	9.9	171,421	57.03
West Virginia	1925	147	52,401	3.0	23,064	13.01
Wisconsin	1913	753	401,431	5.0	252,111	31.55
Wyoming	None	61	21,416	5.9	10,525	28.84
Canal Zone	None	7	12,909	N. A.	3,692	N. A.
District of Columbia	1932	161	274,436	35.0	122,020	155.64
Puerto Rico	1947	294	103,516	4.2	32,106	13.06
Virgin Islands	None	3	1,516	4.2	200	5.56
United States	1934	21,050	13,713,317	7.1	7,182,757	37.36

Sources: Federal Credit Unions, 1962 Report of Operations, U.S. Department of Health, Education and Welfare, Social Security Administration, Bureau of Federal Credit Unions (Washington: 1963); "State-Chartered Credit Unions in 1962," Social Security Bulletin, U.S. Department of Health, Education and Welfare, Social Security Administration (Washington: November, 1963), p. 16; and "Special Study of Selected States and Provinces, 1962," International Credit Union Yearbook, Credit Union National Association (Madison, Wisconsin: 1963), pp. 32-33.

TABLE XXIII

NUMBER, MEMBERSHIP, TOTAL ASSETS, LOANS OUTSTANDING AND PAID-IN SHARE CAPITAL OF CREDIT UNIONS OPERATING IN THE UNITED STATES, December 31, 1925-1962

Year	Number of Credit Unions	Number of Members (1,000's)	Total Assets (1,000,000's)	Loans Outstanding (1,000,000's)	Paid-In Share Capital (1,000,000's)
1962	21,050	13,753.7	$7,188	$5,476	$6,184
1961	20,612	12,903.4	6,382	4,852	5,506
1960	20,148	12,058.2	5,658	4,403	4,863
1959	19,501	11,319.9	5,029	3,718	4,334
1958	18,836	10,539.0	4,347	3,077	3,770
1957	18,198	9,861.5	3,810	2,788	3,298
1956	17,251	9,050.8	3,271	2,326	2,838
1955	16,193	8,153.6	2,743	1,934	2,379
1954	15,041	7,355.6	2,270	1,552	1,978
1953	13,674	6,635.5	1,895	1,308	1,638
1952	12,287	5,888.3	1,516	985	1,309
1951	11,279	5,196.4	1,198	747	1,040
1950	10,586	4,609.4	1,005	680	850
1949	9,922	4,090.7	827	516	701
1948	9,331	3,749.0	701	398	603
1947	9,000	3,339.9	591	280	510
1946	8,767	3,019.7	495	187	430
1945	8,680	2,843.0	435	126	366
1944	8,808	2,935.7	398	121	339
1943	9,223	3,012.9	356	123	N.A.
1942	9,767	3,154.0	341	149	N.A.
1941	9,891	3,316.6	323	220	274
1940	9,023	2,828.3	253	191	212
1939	7,964	2,310.1	194	149	161
1938	7,059	1,868.9	147	108	114
1937	6,105	1,540.0	116	78	82
1936	5,241	1,164.2	83	N.A.	N.A.
1935	3,372	642.6	50	36	36
1934	2,489	430.3	40	28	26
1933	2,016	359.6	35	26	22
1932	1,612	301.1	31	25	22
1931	1,500	286.9	34	27	15
1929	974	264.9	N.A.	31	24
1925	419	108.0	N.A.	13	11

Source: Compiled from data published in the Monthly Labor Review, various issues, 1926-1951; Social Security Bulletin, various issues, 1952-1963; and Report of Operations, Bureau of Federal Credit Unions, 1961-1962.

TABLE XXIV

PERCENTAGE CHANGE IN THE NUMBER, MEMBERSHIP, TOTAL ASSETS, LOANS OUTSTANDING AND PAID IN SHARE CAPITAL OF CREDIT UNIONS IN THE UNITED STATES, 1932-1962.

	Percentage Change from Previous Year				
Year	Number of Credit Unions	Number of Members	Total Assets	Loans Outstanding	Share Capital
1962	2.1%	6.6%	12.6%	12.9%	12.3%
1961	1.0	7.0	12.8	10.2	13.2
1960	3.3	6.5	12.5	18.3	12.2
1959	3.5	7.4	15.7	20.8	15.0
1958	3.5	6.9	14.1	10.4	14.3
1957	5.5	9.0	16.5	19.9	16.2
1956	6.5	11.0	19.2	20.3	19.3
1955	7.7	10.8	20.8	24.6	20.3
1954	10.0	10.9	19.8	18.7	20.7
1953	11.1	12.7	25.0	32.7	25.2
1952	8.9	13.3	26.5	31.9	25.8
1951	6.5	12.7	19.2	9.9	22.4
1950	6.7	12.7	21.5	31.8	21.3
1949	6.3	9.1	17.9	29.4	16.2
1948	3.7	12.3	18.7	42.3	18.4
1947	2.7	10.6	19.4	49.3	18.4
1946	1.0	6.2	13.9	48.5	17.5
1945	- 1.5	- 3.2	9.1	4.4	8.1
1944	- 4.5	- 2.6	12.0	- 1.3	N.A.
1943	- 5.6	- 4.5	4.4	-17.7	N.A.
1942	- 1.3	- 4.9	5.6	-32.3	N.A.
1941	9.6	17.3	27.4	15.5	29.4
1940	13.3	22.4	30.8	27.9	31.6
1939	12.8	23.6	31.4	38.0	41.0
1938	15.6	21.4	26.6	38.4	38.7
1937	16.5	32.3	40.5	N.A.	N.A.
1936	55.4	81.2	64.5	N.A.	N.A.
1935	35.5	49.3	25.1	28.5	35.7
1934	23.5	19.7	13.3	6.2	17.0
1933	25.1	19.4	13.0	6.3	3.5
1932	7.5	5.0	- 6.6	- 6.5	41.7

Source: Computed from data of Table XXIII.

TABLE XXV

CONSUMER INSTALLMENT CREDIT OUTSTANDING IN THE UNITED STATES, 1919 - 1962

(Millions of Dollars)

End of Year	Total	Held by Financial Institutions						
		Total	Commercial Banks	Sales finance cos.	Credit unions	Consumer finance cos.	Other	Held by retail outlets
1962	$48,243	$41,807	$18,909	$12,194	$4,973	$4,131	$1,600	$6,436
1961	43,527	37,935	17,008	11,273	4,330	3,799	1,525	5,595
1960	42,832	37,218	16,672	11,472	3,923	3,670	1,481	5,615
1959	39,245	33,570	15,227	10,319	3,280	3,337	1,407	5,676
1958	33,642	28,659	12,780	8,844	2,668	3,085	1,282	4,983
1957	33,867	29,200	12,843	9,609	2,429	3,124	1,195	4,668
1956	31,720	26,977	11,777	9,117	2,014	2,940	1,129	4,743
1955	28,906	24,398	10,601	8,447	1,678	2,623	1,049	4,508
1954	23,568	19,450	8,796	6,144	1,342	2,257	911	4,118
1953	23,005	18,963	8,998	5,927	1,124	2,137	777	4,042
1952	19,403	15,581	7,524	4,711	837	1,866	643	3,822
1951	15,294	12,124	5,771	3,654	635	1,555	509	3,170
1950	14,703	11,805	5,798	3,711	590	1,286	420	2,898
1949	11,590	9,257	4,439	2,944	438	$1,436		2,333
1948	8,996	7,120	3,529	2,011	334	1,246		1,876
1947	6,695	5,255	2,625	1,355	235	1,040		1,440
1946	4,172	3,235	1,567	677	151	840		937
1945	2,462	1,776	745	300	102	629		686

1944	2,176	1,486	574	262	99	551	690
1943	2,136	1,413	532	252	103	526	723
1942	3,166	2,176	862	588	128	598	990
1941	6,085	4,480	1,726	1,797	198	759	1,605
1940	5,514	3,918	1,452	1,575	171	720	1,596
1939	4,503	3,065	1,079	1,197	132	657	1,438
1938	3,686	2,414	742	969	101	602	1,272
1937	4,118	2,804	706	1,415	81	602	1,314
1936	3,747	2,580	655	1,353	57	515	1,167
1935	2,817	1,860	415	974	36	435	957
1934	1,999	1,203	169	630	24	380	796
1933	1,723	1,001	127	507	20	347	722
1932	1,672	958	137	418	19	384	714
1931	2,463	1,319	173	684	21	441	1,144
1930	3,022	1,563	204	880	22	457	1,459
1929	3,524	1,745	201	1,074	22	448	1,779
1928	2,935	1,353	167	816	21	349	1,582
1927	2,319	1,054	136	628	18	272	1,265
1926	2,363	1,019	116	669	16	21[illegible]	1,344
1925	2,115	815	94	529	14	178	1,300
1924	1,646	515	69	293	12	141	1,131
1923	1,368	397	52	222	10	113	971
1922	1,047	280	39	136	8	97	767
1921	919	219	31	93	7	88	700
1920	969	214	25	105	6	78	755
1919	800	164	19	73	4	68	636

Sources: "Consumer Credit Statistics," Supplement to Banking and Monetary Statistics (Washington: Board of Governors of the Federal Reserve System, 1963), p. 7; and Federal Reserve Bulletin (Washington: Board of Governors of the Federal Reserve System, 1963), Volume 49, Number 5, May, 1963, p. 690.

TABLE XXVI

CONSUMER INSTALLMENT CREDIT OUTSTANDING IN THE UNITED STATES, 1919 - 1962
(Percentage Distributions)

End of Year	Held by Financial Institutions						Credit unions as a percent of total by all holders
	Total	Commercial banks	Sales finance cos.	Credit unions	Consumer finance cos.	Other	
1962	100.0%	45.2%	29.2%	11.9%	9.9%	3.8%	10.3%
1961	100.0	44.8	29.6	11.4	10.0	4.0	9.9
1960	100.0	44.8	30.8	10.5	9.9	4.0	9.2
1959	100.0	45.4	30.7	9.8	9.9	4.2	8.4
1958	100.0	44.6	30.9	9.3	10.8	4.5	7.9
1957	100.0	44.0	32.9	8.3	10.7	4.1	7.2
1956	100.0	43.7	33.8	7.5	10.9	4.2	6.3
1955	100.0	43.5	34.6	6.9	10.8	4.3	5.8
1954	100.0	45.2	31.6	6.9	11.6	4.7	5.7
1953	100.0	47.5	31.3	5.9	11.3	4.1	4.9
1952	100.0	48.3	30.2	5.4	12.0	4.1	4.3
1951	100.0	47.6	30.1	5.2	12.8	4.2	4.2
1950	100.0	49.1	31.4	5.0	10.9	3.6	4.0
1949	100.0	48.0	31.8	4.7			3.8
1948	100.0	50.0	28.2	4.7			3.7
1947	100.0	50.0	25.8	4.5			3.5
1946	100.0	48.4	20.9	4.7			3.6
1945	100.0	41.9	16.9	5.7			4.1

1944	100.0	38.6	17.6	6.7	4.5
1943	100.0	37.7	17.8	7.3	4.8
1942	100.0	39.6	27.0	5.9	4.0
1941	100.0	38.5	40.1	4.4	3.3
1940	100.0	37.1	40.2	4.4	3.1
1939	100.0	35.2	39.1	4.3	2.9
1938	100.0	30.7	40.1	4.2	2.7
1937	100.0	25.2	50.5	2.9	2.0
1936	100.0	25.4	52.4	2.2	1.5
1935	100.0	22.3	52.4	1.9	1.3
1934	100.0	14.0	52.4	2.0	1.2
1933	100.0	12.7	50.6	2.0	1.2
1932	100.0	14.3	43.6	2.0	1.1
1931	100.0	13.1	51.9	1.6	0.9
1930	100.0	13.1	56.3	1.4	0.7
1929	100.0	11.5	61.5	1.3	0.6
1928	100.0	12.3	60.3	1.6	0.7
1927	100.0	12.9	59.6	1.7	0.8
1926	100.0	11.4	65.7	1.6	0.7
1925	100.0	11.5	64.9	1.7	0.7
1924	100.0	13.4	56.9	2.3	0.7
1923	100.0	13.1	55.9	2.5	0.7
1922	100.0	13.9	48.6	2.9	0.8
1921	100.0	14.2	42.5	3.2	0.8
1920	100.0	11.7	49.1	2.8	0.6
1919	100.0	11.6	44.5	2.4	0.5

Source: Computed from data of Table XXV.

TABLE XXVII

NUMBER, MEMBERSHIP, TOTAL ASSETS, LOANS OUTSTANDING AND PAID-IN SHARE CAPITAL OF FEDERAL CREDIT UNIONS OPERATING IN LOUISIANA, December 31, 1934-1962

Year	Number of Credit Unions	Number of Members (1,000's)	Total Assets (1,000's)	Loans Outstanding (1,000's)	Total Shares (1,000's)
1962	316	150.3	$69,674	$51,157	$61,114
1961	297	143.4	62,418	45,926	54,995
1960	281	135.8	55,663	43,170	48,623
1959	269	128.3	49,186	35,490	43,046
1958	269	122.4	42,642	30,587	37,683
1957	259	113.3	36,722	27,583	32,192
1956	241	100.7	29,873	22,369	26,370
1955	221	86.5	23,428	17,714	20,793
1954	188	73.4	19,039	13,897	16,984
1953	159	63.0	15,163	11,676	13,625
1952	141	56.0	11,952	8,456	10,768
1951	124	48.5	9,099	6,239	8,168
1950	107	42.2	7,330	5,824	6,471
1949	95	36.8	5,818	4,251	5,147
1948	76	29.8	4,386	2,933	3,970
1947	71	26.8	3,515	1,923	3,180
1946	74	23.9	2,970	1,191	2,713
1945	75	21.4	2,485	707	2,291
1944	77	20.2	2,123	588	1,962
1943	82	21.6	1,984	546	1,820
1942	111	22.9	2,044	762	1,848
1941	92	26.1	2,108	1,492	1,890
1940	91	N.A.	1,630	1,321	1,459
1939	77	N.A.	1,210	978	1,091
1938	64	N.A.	744	597	680
1937	55	11.6	549	477	500
1936	41	5.9	224	189	204
1935	11	1.7	36	31	34
1934	7	N.A.	N.A.	N.A.	N.A.

Source: Compiled from data published in Monthly Labor Review, various issues, 1935-1941; Federal Credit Union Report, Federal Deposit Insurance Corporation, 1942-1947; and Report of Operations, Bureau of Federal Credit Unions, 1948-1963.

TABLE XXVIII

NUMBER, MEMBERSHIP, TOTAL ASSETS, LOANS OUTSTANDING AND PAID-IN SHARE CAPITAL OF STATE CREDIT UNIONS OPERATING IN LOUISIANA, December 31, 1925-1962

Year	Number of Credit Unions	Number of Members (1,000's)	Total Assets (1,000's)	Loans Outstanding (1,000's)	Total Shares (1,000's)
1962	97	49.4	$22,596	$17,308	$19,546
1961	99	47.8	20,627	15,839	17,910
1960	100	46.3	18,820	15,110	16,151
1959	101	43.9	17,110	13,615	14,770
1958	102	N.A.	14,547	11,499	12,573
1957	101	N.A.	12,278	9,857	10,413
1956	105	32.5	10,391	8,218	8,687
1955	97	31.4	8,523	6,576	7,103
1954	99	N.A.	7,106	5,423	6,141
1953	99	N.A.	5,890	4,879	5,134
1952	105	N.A.	4,843	3,899	4,120
1951	89	25.0	3,355	2,639	2,918
1950	75	22.0	2,864	2,344	2,392
1949	78	20.0	2,287	1,650	1,918
1948	68	16.0	1,772	1,300	1,505
1947	66	12.0	1,400	890	1,176
1946	59	11.0	1,132	518	961
1945	54	11.0	984	359	844
1944	53	12.0	896	364	757
1943	61	10.0	871	403	708
1942	55	10.0	780	434	645
1941	30	9.0	751	609	636
1940	27	N.A.	660	563	557
1939	24	N.A.	569	495	476
1938	21	N.A.	501	451	427
1937	21	N.A.	436	399	370
1936	20	N.A.	358	331	304
1935	18	N.A.	266	218	227
1934	17	N.A.	222	203	184
1933	13	N.A.	184	172	155
1932	9	N.A.	159	147	140
1931	9	N.A.	130	117	114
1930	7	N.A.	90	85	78
1929	6	1.2	51	46	41
1928	6	N.A.	35	32	32
1927	4	N.A.	52	37	38
1926	4	N.A.	49	39	38
1925	4	N.A.	32	23	24

Source: Louisiana State Banking Department.

TABLE XXIX

NUMBER, MEMBERSHIP, TOTAL ASSETS, LOANS OUTSTANDING AND PAID-IN SHARE CAPITAL OF ALL CREDIT UNIONS OPERATING IN LOUISIANA, DECEMBER 31, 1934-1962

Year	Number of Credit Unions	Number of Members (1,000's)	Total Assets (1,000's)	Loans Outstanding (1,000's)	Total Shares (1,000's)
1962	413	199.7	$92,270	$68,465	$80,660
1961	396	191.3	83,045	61,765	72,904
1960	381	182.1	74,483	58,281	64,775
1959	370	172.2	66,295	49,106	57,816
1958	371	N.A.	57,189	42,086	50,256
1957	360	N.A.	48,999	37,440	42,606
1956	346	133.2	40,264	30,587	35,057
1955	318	117.9	31,951	24,290	27,896
1954	287	N.A.	26,145	19,320	23,125
1953	258	N.A.	21,053	16,555	18,759
1952	246	N.A.	16,795	12,355	14,888
1951	213	73.5	12,454	8,879	11,086
1950	182	64.2	10,195	8,169	8,863
1949	173	56.8	8,105	5,901	7,065
1948	144	45.8	6,158	4,233	5,475
1947	143	38.8	4,915	2,813	4,355
1946	142	34.9	4,170	1,616	3,613
1945	131	32.4	3,469	1,066	3,135
1944	139	32.2	3,081	1,038	2,776
1943	142	31.6	2,854	952	2,529
1942	166	32.9	2,824	1,197	2,492
1941	139	35.1	2,860	2,101	2,526
1940	118	31.0	2,290	1,883	2,015
1939	102	25.3	1,779	1,473	1,567
1938	87	18.5	1,244	1,048	1,106
1937	76	11.6	985	876	870
1936	61	12.0	582	520	508
1935	29	N.A.	303	249	261
1934	24	N.A.	222	203	184

Source: Tables XXVII and XXVIII.

TABLE XXX

PERCENTAGE CHANGE IN TOTAL ASSETS, LOANS OUTSTANDING AND PAID-IN SHARE CAPITAL OF ALL CREDIT UNIONS OPERATING IN LOUISIANA, 1933-1962

Year	Percentage Change from Previous Year		
	Total Assets	Loans Outstanding	Capital
1962	11.1	11.1	11.1
1961	11.5	5.6	12.6
1960	12.3	18.7	12.0
1959	15.9	16.7	15.0
1958	16.7	12.4	18.0
1957	21.7	22.4	21.5
1956	26.0	25.9	25.7
1955	22.2	25.7	20.6
1954	24.2	16.7	23.3
1953	25.3	34.0	26.0
1952	34.9	39.2	34.3
1951	22.2	8.7	25.1
1950	25.8	38.4	25.4
1949	31.6	39.4	29.0
1948	25.3	50.5	25.7
1947	17.9	74.1	20.6
1946	20.2	51.5	15.2
1945	12.6	2.8	12.9
1944	8.0	9.0	9.8
1943	1.1	-20.4	1.5
1942	- 1.3	-43.0	- 1.4
1941	24.9	11.6	25.4
1940	28.7	27.8	28.6
1939	43.0	40.6	41.6
1938	26.3	19.6	27.2
1937	55.2	68.5	71.2
1936	92.1	108.8	94.6
1935	36.5	22.9	42.1
1934	20.3	18.0	18.7
1933	15.6	16.5	10.4

Source: Computed from data of Table XXIX.

TABLE XXXI

SELECTED DATA ON OPERATIONS OF STATE AND FEDERAL CREDIT UNIONS

IN LOUISIANA, BY PARISH, DECEMBER 31, 1962

PARISH NAME	NUMBER OF CREDIT UNIONS			MEMBERSHIP			
	Total	Federal	State	Total	Federal	State	Per Cent of Population
Acadia	4	3	1	1,123	291	832	2.21
Allen	2	2	0	862	862	0	4.28
Ascension	5	4	1	1,030	892	138	3.50
Bossier	2	2	0	6,649	6,649	0	10.74
Caddo	47	40	7	23,577	20,377	3,200	10.01
Calcasieu	22	14	8	12,025	7,479	4,546	7.60
East Baton Rouge	46	34	12	32,170	24,074	8,096	13.00
Evangeline	3	2	1	304	201	103	.95
Franklin	1	1	0	51	51	0	.20
Iberia	5	3	2	1,745	637	1,108	3.19
Iberville	2	2	0	367	367	0	1.19
Jefferson	11	9	2	3,639	3,053	586	1.53
Jefferson Davis	2	2	0	210	210	0	.68
Lafayette	14	11	3	5,243	2,979	2,264	5.64
LaFourche	2	1	1	528	182	346	.88
LaSalle	1	0	1	38	0	38	.29
Lincoln	3	3	0	794	794	0	2.70
Morehouse	1	1	0	1,828	1,828	0	5.34
Orleans	154	114	40	72,348	50,932	21,416	11.20
Ouachita	12	8	4	6,029	4,549	1,380	5.53

Plaquemines	3	2	1	477	184	293	1.92
Rapides	21	17	4	10,050	8,000	2,050	8.54
St. Bernard	5	5	0	2,578	2,578	0	7.14
St. Charles	3	3	0	2,600	2,600	0	11.15
St. Helena	1	1	0	80	80	0	.86
St. James	2	2	0	490	490	0	2.55
St. John the Baptist	2	2	0	746	746	0	3.84
St. Laundry	3	2	1	638	144	494	.76
St. Martin	3	3	0	318	318	0	1.07
St. Mary	2	1	1	340	83	257	.64
St. Tammany	4	4	0	819	819	0	1.95
Tangibohoa	6	3	3	1,893	494	1,399	3.08
Terrebonne	6	3	3	2,893	913	1,932	4.35
Union	1	1	0	137	137	0	.79
Vermillion	4	2	2	453	277	176	1.14
Washington	3	3	0	3,610	3,610	0	7.89
Webster	3	3	0	2,933	2,933	0	7.18
West Baton Rouge	2	2	0	1,185	1,185	0	7.54
West Feliciana	1	1	0	223	223	0	1.71

Source: Compiled from unpublished data supplied by the Bureau of Federal Credit Unions and the Louisiana Banking Department.

TABLE XXXII

SELECTED DATA ON OPERATIONS OF CREDIT UNIONS IN LOUISIANA,

BY PARISH, DECEMBER 31, 1962

PARISH NAME	TOTAL ASSETS	PAID IN SHARE CAPITAL	PER CAPITA ASSETS	PER CAPITA SHARES
Acadia	$ 346,707	$ 331,921	$ 6.83	$ 6.54
Allen	504,278	446,107	25.08	22.19
Ascension	434,308	339,313	14.77	13.58
Bossier	2,880,684	2,680,439	46.53	43.30
Caddo	10,597,536	8,824,271	45.03	37.50
Calcasieu	7,873,742	6,846,941	49.77	43.28
East Baton Rouge	16,862,182	14,547,890	68.15	58.80
Evangeline	166,161	148,484	5.24	4.68
Frankline	313	277	.01	.01
Iberia	500,617	425,826	9.15	7.78
Iberville	120,112	105,151	3.89	3.41
Jefferson	1,560,625	1,364,870	6.59	5.76
Jefferson Davis	32,043	26,891	1.04	.87
Lafayette	1,992,176	1,777,955	21.44	19.13
LaFourche	314,869	289,149	5.29	4.85
LaSalle	13,254	12,118	1.01	.92
Lincoln	121,831	98,955	4.14	3.36
Morehouse	1,183,950	1,063,857	34.61	31.10
Orleans	28,651,723	24,743,282	44.38	38.33
Ouachita	2,775,167	2,429,044	25.46	22.28

Plaquemines	$ 161,084	$ 147,844	$ 6.49	$ 5.96
Rapides	4,141,915	3,646,407	35.22	31.00
St. Bernard	662,397	533,461	18.34	14.77
St. Charles	1,815,480	1,614,441	77.91	69.28
St. Helena	5,755	5,493	.62	.59
St. James	209,752	178,556	10.92	9.29
St. John the Baptist	678,632	600,663	34.98	30.96
St. Laundry	199,196	171,316	2.39	2.06
St. Martin	7,715	6,927	.25	.23
St. Mary	138,800	125,697	2.62	2.37
St. Tammany	217,212	194,514	5.19	4.65
Tangibohoa	927,883	814,874	15.13	13.29
Terrebonne	1,212,935	1,106,905	18.54	16.92
Union	12,563	11,671	.73	.67
Vermillion	110,841	100,004	2.80	2.53
Washington	2,411,811	2,071,880	52.77	45.33
Webster	2,265,134	2,064,593	55.51	50.60
West Baton Rouge	660,473	619,324	42.06	39.44
West Feliciana	68,092	58,780	5.23	4.52

Source: Compiled from unpublished data supplied by the Bureau of Federal Credit Unions and the Louisiana Banking Department.

VITA

Edgar Wallace Wood, the son of Ernest Wallace and Maude Jackson Wood, was born on August 11, 1937, in Oxford, Mississippi. He attended public school in Clinton, Mississippi, and was graduated from Clinton High School in June, 1955.

He entered Mississippi College in June of 1955 and was graduated from that institution with a Bachelor of Science degree in Business Administration on June 1, 1958. In 1958-1959, under the sponsorship of Dr. Harlan L. McCracken, he was granted an H. B. Earhart Junior Fellowship for graduate study at Louisiana State University. He received the Master of Science degree in Economics in January, 1960. He held various research and teaching assistantships in the College of Business Administration at Louisiana State University from 1959 to 1963.

In 1963 he joined the faculty of the Hankamer School of Business at Baylor University and has held the position of Assistant Professor of Economics since that date. At the present time he is a candidate for the Doctor of Philosophy degree in the Department of Economics.

EXAMINATION AND THESIS REPORT

Candidate: Edgar Wallace Wood

Major Field: Economics

Title of Thesis: CREDIT UNION DEVELOPMENT IN LOUISIANA

Approved:

Thomas R. Beard

Major Professor and Chairman

Max Goodrich

Dean of the Graduate School

EXAMINING COMMITTEE:

Wm. D. Ross

James P. Payne, Jr.

P. H. Boyer

Don L. Woodland

Date of Examination:

July 19, 1967